ANNUAL REPORT

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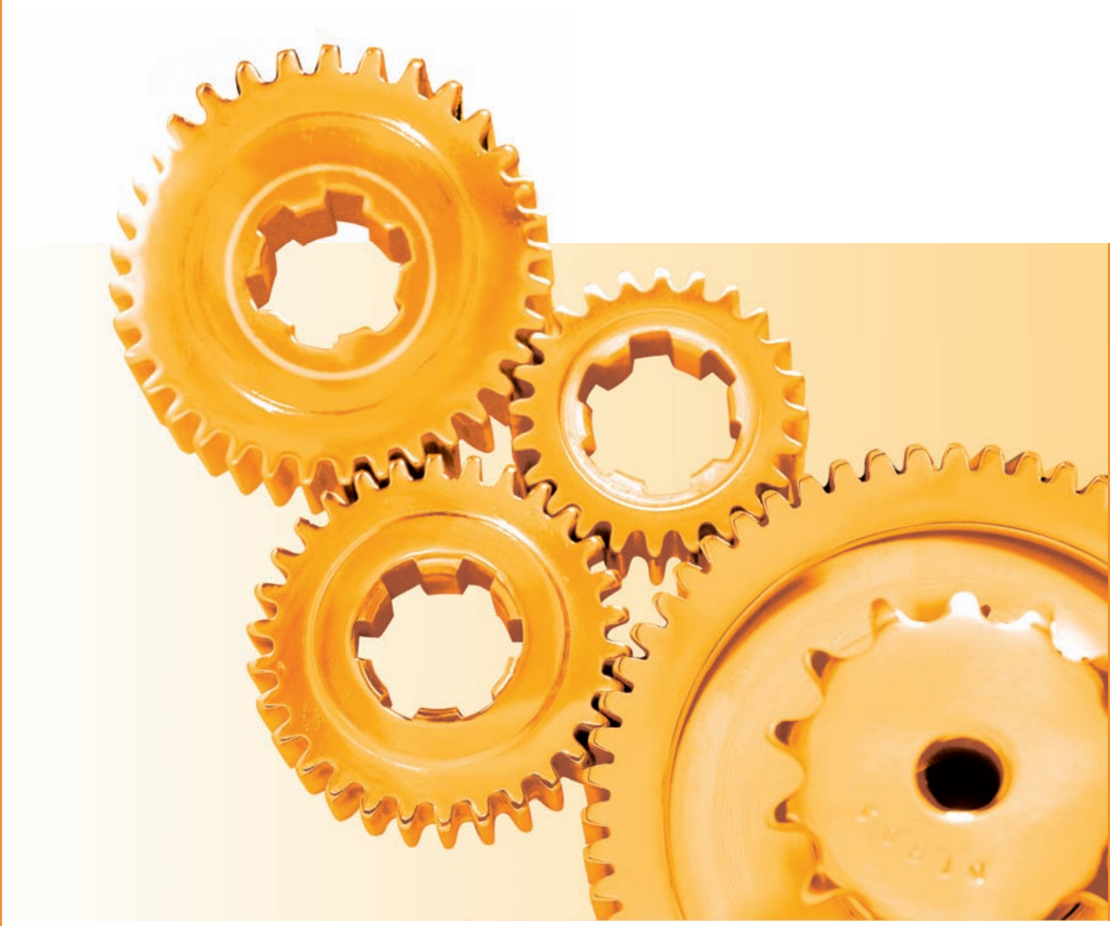


Full Steam Ahead
Striking for the Best

Shougang Concord
Grand (Group) Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 730

Contents

Corporate Information

Board of Directors

Wang Qinghai *(Chairman)*
Cao Zhong
(Vice Chairman and Managing Director)
Chen Zheng *(Managing Director of Operations)*
Wang Tian *(Deputy Managing Director)*
Yuan Wenxin *(Deputy Managing Director)*
Leung Shun Sang, Tony *(Non-executive Director)*
Tam King Ching, Kenny
(Independent Non-executive Director)
Zhou Jianhong
(Independent Non-executive Director)
Yip Kin Man, Raymond
(Independent Non-executive Director)

Executive Committee

Cao Zhong *(Chairman)*
Chen Zheng
Wang Tian
Yuan Wenxin

Audit Committee

Tam King Ching, Kenny *(Chairman)*
Zhou Jianhong
Yip Kin Man, Raymond

Nomination Committee

Cao Zhong *(Chairman)*
Leung Shun Sang, Tony *(Vice Chairman)*
Tam King Ching, Kenny
Zhou Jianhong
Yip Kin Man, Raymond

Remuneration Committee

Leung Shun Sang, Tony *(Chairman)*
Cao Zhong *(Vice Chairman)*
Tam King Ching, Kenny
Zhou Jianhong
Yip Kin Man, Raymond

Company Secretary

Cheng Man Ching

Qualified Accountant

Chiu Ming Kin

Auditor

Deloitte Touche Tohmatsu

Principal Registrars

The Bank of Bermuda Limited
6 Front Street
Hamilton 5-31
Bermuda

Hong Kong Branch Share Registrars and Transfer Office

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal Office in Hong Kong

Rooms 1101-04, 11th Floor
Harcourt House
39 Gloucester Road
Wanchai
Hong Kong

Stock Code

730

Website

www.shougang-grand.com.hk

Directors' Biographies

Mr. Wang Qinghai, aged 49, senior engineer. Mr. Wang was appointed the Chairman of the Company, Shougang Holding (Hong Kong) Limited ("Shougang Holding"), a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), and Shougang Concord International Enterprises Company Limited ("Shougang International") in April 2001. He is the General Manager of Shougang Corporation, the ultimate holding company of Shougang Holding, and has extensive experience in management and operation.

Mr. Cao Zhong, aged 48, graduated from Zhejiang University, the People's Republic of China ("PRC") and Graduate School, The Chinese Academy of Social Sciences with a bachelor degree in engineering and a master degree in economics. Mr. Cao was appointed the Vice Chairman of the Company in November 2001 and has acted concurrently as the Managing Director of the Company since February 2006. He was appointed the Joint Chairman of Global Digital Creations Holdings Limited ("GDC"), a non-wholly owned subsidiary of the Company, in February 2005 and is currently the Chairman of GDC. He was also appointed the Deputy Chairman and General Manager of Shougang Holding, a substantial shareholder of the Company within the meaning of Part XV of the SFO, the Managing Director of Shougang International, the Chairman of each of Shougang Concord Technology Holdings Limited ("Shougang Technology") and Shougang Concord Century Holdings Limited ("Shougang Century") in November 2001. He was appointed an Executive Director of APAC Resources Limited ("APAC") in April 2007 and was re-designated as the Chairman of APAC in May 2007. He is also a director of Wheeling Holdings Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO. He also acts as the Assistant General Manager of Shougang Corporation and the Chairman of China Shougang International Trade and Engineering Corporation. Mr. Cao has extensive experience in corporate management and operation.

Mr. Chen Zheng, aged 48, engineer and senior economist. He holds a bachelor degree in chemical engineering and a master degree in business administration. Mr. Chen was appointed an Executive Director of the Company in January 2004 and is currently the Managing Director of Operations of the Company. He was also appointed an Executive Director of GDC in February 2005 and is currently the Managing Director of GDC. Mr. Chen has extensive experience in investing business and corporate management.

Directors' Biographies

Mr. Wang Tian, aged 52, senior economist. He holds a PhD degree in economics. Mr. Wang was appointed an Executive Director of the Company in March 2004 and is currently the Deputy Managing Director of the Company. He has extensive experience in the field of financial management. He had been awarded certificate and special allowance from the Government of the PRC as a commendation for his outstanding contribution in developing the financial business in Mainland China.

Mr. Yuan Wenxin, aged 38, graduated from Hunan University Law School with a bachelor degree in law and a post-graduate diploma in finance. Mr. Yuan was appointed an Executive Director of the Company in August 2005 and is currently the Deputy Managing Director of the Company. He was an Assistant General Manager of Shougang Holding and a Director of Shougang Technology. Mr. Yuan has extensive experience in financial investment and corporate restructuring.

Mr. Leung Shun Sang, Tony, aged 65. Mr. Leung was appointed a Non-executive Director of the Company in July 1995 and a Non-executive Director of GDC in December 2005. He is also a Director of each of Shougang International, Shougang Technology and Shougang Century. He holds a master degree in business administration from New York State University and has over 30 years of experience in finance, investment and corporate management. Mr. Leung is the managing director of CEF Group.

Mr. Tam King Ching, Kenny, aged 59. Mr. Tam was appointed an Independent Non-executive Director of the Company in February 1996. He is a practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Tam is serving as a member of the Ethics Committee, Practice Review Committee, Small and Medium Practitioners Committee and Insolvency Practitioners Committee in the Hong Kong Institute of Certified Public Accountants. He is also a Past President of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an independent non-executive director of five other listed companies on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), namely, CCT Telecom Holdings Limited, Kingmaker Footwear Holdings Limited, Starlite Holdings Limited, Swank International Manufacturing Company Limited and Van Shung Chong Holdings Limited, and a listed company on the Growth Enterprise Market of the Stock Exchange, namely, North Asia Strategic Holdings Limited.

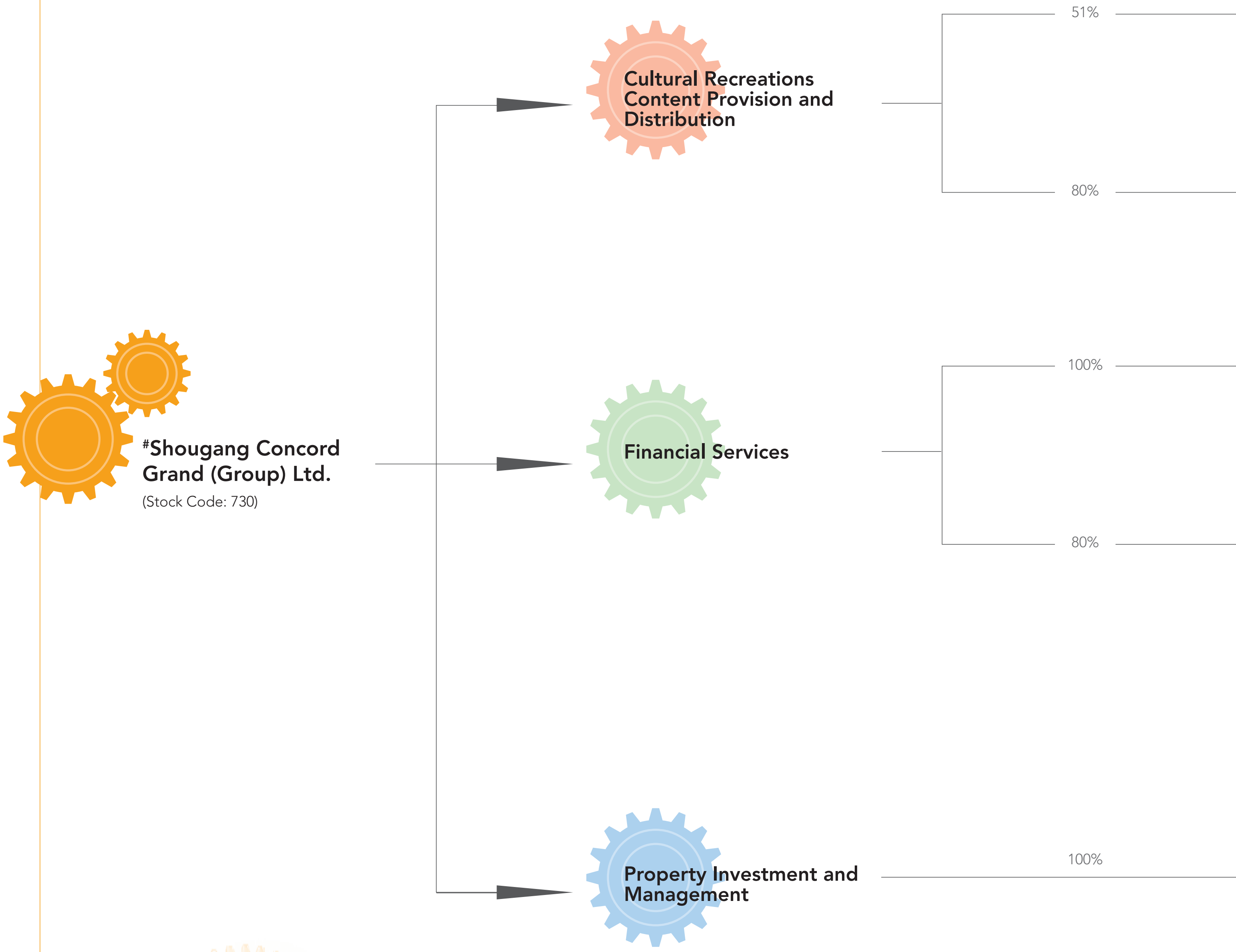
Directors' Biographies

Ms. Zhou Jianhong, aged 42. Ms. Zhou was appointed an Independent Non-executive Director of the Company in September 2004. She is a practising solicitor in Hong Kong. Ms. Zhou graduated from Peking University with a master degree in economic law.

Mr. Yip Kin Man, Raymond, aged 61. Mr. Yip was appointed an Independent Non-executive Director of the Company in January 2007. He is also an Independent Non-executive Director of Shougang Century. He is a practising solicitor, notary public and Attesting Officer appointed by the Ministry of Justice of the PRC.

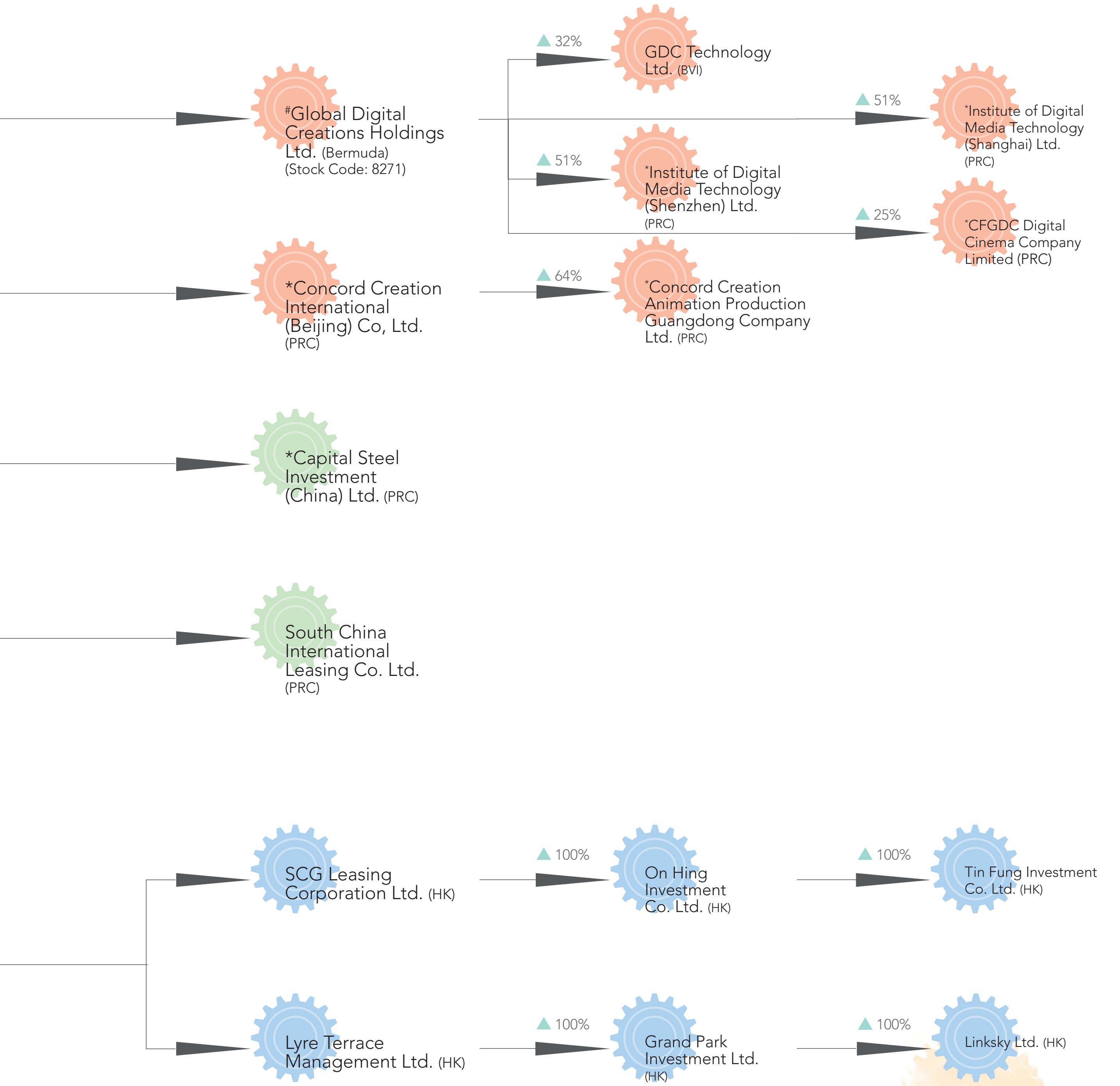
Main Operational Structure

As at 31 December 2007



Main Operational Structure

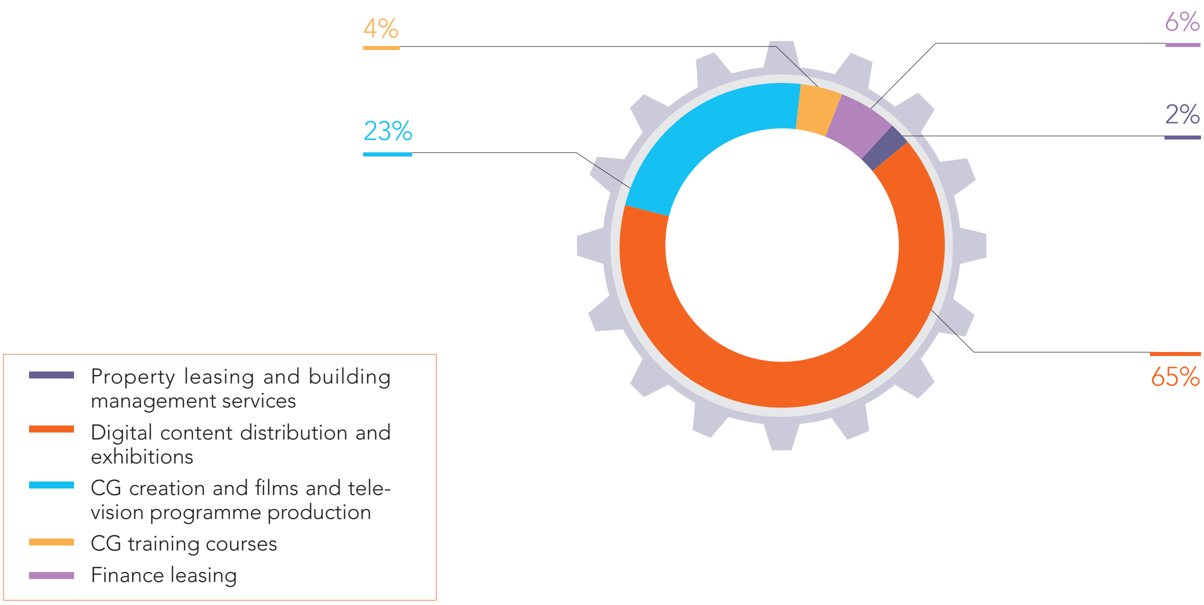
As at 31 December 2007



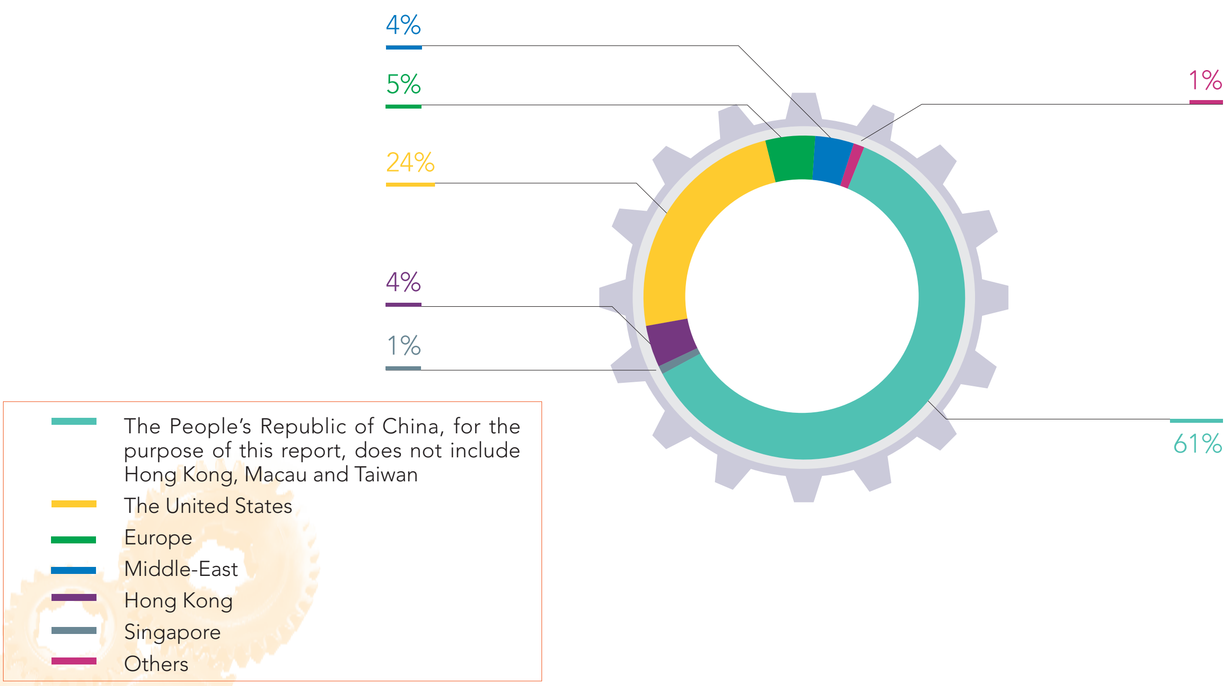
Notes:
Listed company
* For identification purpose only
▲ Attributable interest held by Shougang Concord Grand (Group) Limited

Financial Highlights

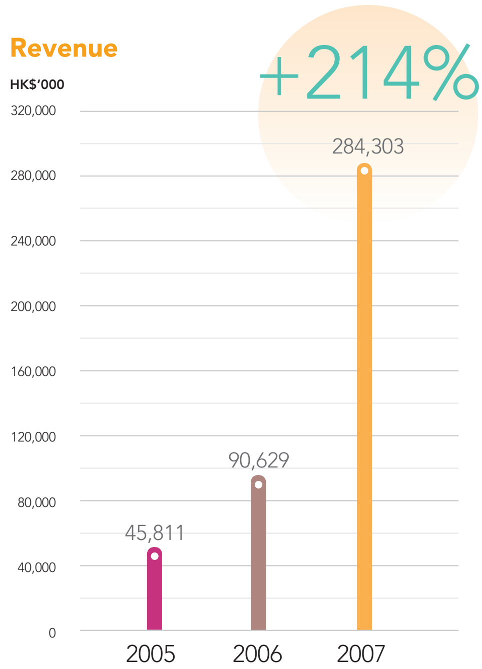
Revenue by principal activity for the year 2007

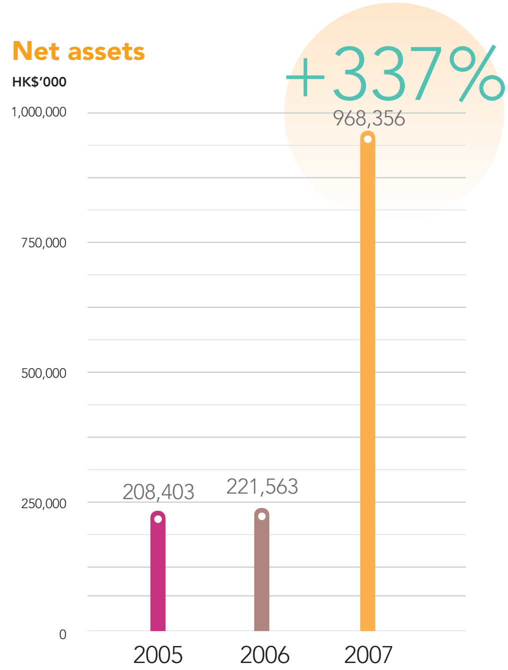


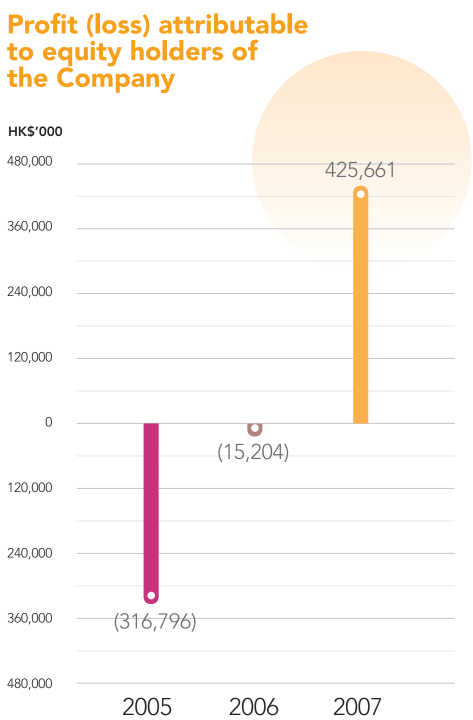
Revenue by geographical location for the year 2007



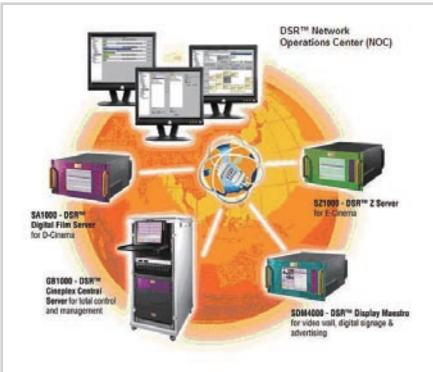
Financial Highlights





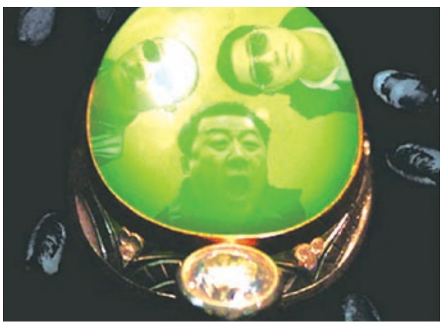


Chairman's Statement



Through effective business development and strong execution, the Group achieved significant business growth and market recognition in the year 2007. During this year, we have again demonstrated our professional capabilities and dedications in each of our respective positions, and the synergetic results were apparent. The board of directors (the "Board") has been thoroughly engaged to guide and help us by continuously improving comprehensive management incentive share option schemes of the Group, restructuring, engaging investors, and establishing partnership between the Group and influential government media entities.

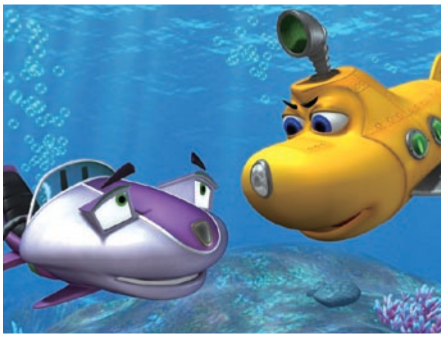
I'm pleased to report that the Group achieved consolidated revenue of approximately HK$284.3 million for this year, which represented a growth of approximately 214% over that for the year 2006. Furthermore, all our three business segments, cultural recreations content provision and distribution segment, financial service provision segment and property investment and management segment, reported net profit for this year. It was the first time for all our segments to have such achievement in our entire history. More significantly, the progress of the Group's operation and business expansion was well received by the investment community.



First, in the cultural recreations content provision and distribution segment, our products developed, movies, short films and television series we released have been highly recognised by the market. The revenue for this year from this segment amounted to approximately HK$260.0 million, which reported a hyper growth by over 270% comparing with that for the year 2006, while the segment result for this year also improved from deficit of approximately HK$10.3 million for the year 2006 to profit of approximately HK$22.5 million for this year.

In digital content distribution and exhibitions business, the commencement of deployment of digital cinemas worldwide during this year has brought ample business opportunities to us. Our aim in this business is to best satisfy the customers' needs for digital delivery of multimedia information to all form of display technologies that enhance the multimedia experience, improve the multimedia communication and reduce the cost of bringing the best quality multimedia display to the audience.

Chairman's Statement



Another monumental development is that we have commenced the roll out of digital cinema network in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan) cooperated with China Film Group Corporation ("CFGC") for the deployment of digital cinema network in the PRC, about 450 units of digital cinema equipment were purchased by the end of this year for installation to cinemas in all the 27 provinces in the PRC. With the continuing growth in the box office receipts in the PRC over the past five years and also expects in the future, our revenue from this project will increase accordingly. Besides, we, working with CFGC, have also explored the alternative revenue in addition to the share of box office.

In computer graphic ("CG") creation and production business, there was a significant improvement also for this year, which was mainly attributable to our expanding CG production service customer base worldwide, improving financial control, improving production efficiency, and enhancing service quality and reliability. Comparing with other CG service companies in Asia, it is unprecedented that we could achieve such financial milestone in less than three years since its initial focus on service business.

Besides, we are recognised and considered "preproved" by several leading studios and distributors in Hollywood and Europe. All our customers who had risen funding for new projects had placed new service orders to us so far. Our progress in CG business is also recognised by the PRC government and we have received various forms of support from them.

Furthermore, we become more active in co-production deals with world leading studios this year to accumulate more IP asset for long term financial upside. One of such co-production effort results in our second full feature length CG film, "Little Happy Submarine," which will be released in summer 2008 in the PRC.

Chairman's Statement

Second, in the financial service provision segment, we expect our service provided will increase in tandem with the expected blooming economy development and the dynamic market opportunities and economic environment in the PRC. Upon completion of the acquisition of further 30% effective interest in South China International Leasing Company Limited in November 2007, we can then increase our participation in the financial leasing market in the PRC, which is beneficial to us.

On the other hand, we also see greater competition and challenges not only from local financial institutions, but also from foreign companies. In order to ensure sustainable development, we are fully aware of the importance of improving our service as well as our competitiveness in the market. Besides, we will also proactively explore new business opportunities in order to broaden our service and expand customer base.

Last but not least, our entire 44% interest in Beijing Dongzhimen International Apartment Co. Ltd. was disposed during this year and we would recoup the capital from this disposal for developing our other businesses. Although importance of our property investment and management is declining, this segment remained a stable cash inflow contributor to us. We still closely monitor any changes in the market and will consider the disposal of investment properties in Hong Kong for reasonable returns.

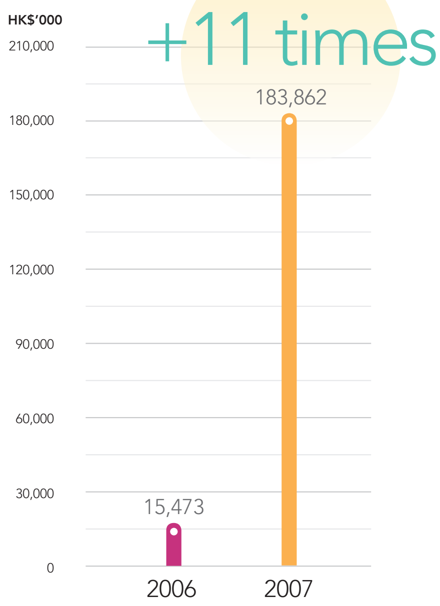
On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout this year.

Wang Qinghai
Chairman

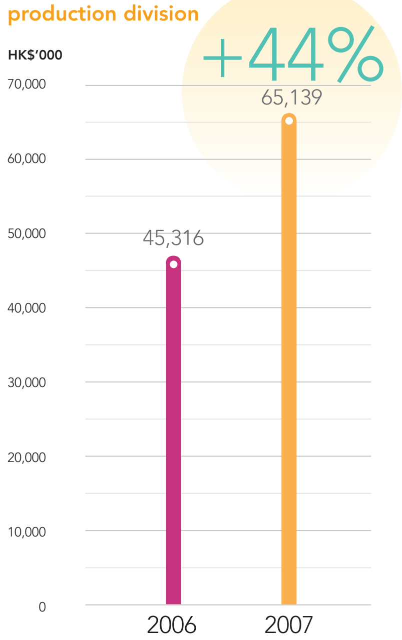
16 April 2008

Management Discussion and Analysis

Revenue from digital content distribution and exhibitions division



Revenue from CG creation and films and TV programme production division



Financial Overview

The revenue of the Group for the year ended 31 December 2007 was approximately HK$284,303,000, when compared with that of approximately HK$90,629,000 for the year 2006, represented an increase of approximately 214%. The increase is mainly attributable to the increase in revenue from digital content distribution and exhibitions division, and computer graphic ("CG") creation and films and television programme production division.

During the year ended 31 December 2007, the Group's revenue from digital content distribution and exhibitions division, which mainly consisted of sales of digital cinema equipment, the relevant technical service income and income from equipment leasing, amounted to approximately HK$183,862,000, increased for approximately 11 times comparing with that for the year 2006. This increase was mainly due to digital cinema equipment sold for the deployment of digital cinema network in the People's Republic of China (the "PRC", for the purpose of this report does not include Hong Kong, Macau and Taiwan) cooperated by China Film Group Corporation ("CFGC") and the Group (the "PRC Digital Cinema Project") during the second half of the year, launch of new products, and upgrading digital cinema servers to the Digital Cinema Initiative ("DCI") specified JPEG2000 code with improved security features. The Group's revenue from CG creation and films and television programme production division amounted to approximately HK$65,139,000, increased for approximately 44% comparing with that for the year 2006, as a result of increase in both works from new clients and repeated orders from existing clients of CG creation and production.

Cost of sales for the year ended 31 December 2007 amounted to approximately HK$193,371,000, increased by approximately 260% comparing with that of approximately HK$53,670,000 for the year 2006.

The Group made a gross profit of approximately HK$90,932,000 for the year ended 31 December 2007, representing a gross profit margin of approximately 32%. Comparing with that gross profit margin of approximately 41% for the year 2006, the decrease was mainly due to the digital cinema equipment, DCI-2000 Digital Cinema Integrated Projection System, sold for the PRC Digital Cinema Project was at a lower margin than the other products.

Management Discussion and Analysis

Other income for the year ended 31 December 2007 amounted to approximately HK$23,369,000 (2006: HK$9,732,000) mainly represented interest income of approximately HK$14,084,000 earned during the year, and the waiver of certain interest payable on other loan and rental payable amounted to approximately HK$4,156,000 and HK$3,228,000, respectively, upon entering into settlement agreements with relevant parties.

Administrative expenses for the year ended 31 December 2007 amounted to approximately HK$156,036,000 (2006: HK$83,474,000), representing an increase of approximately 87%. The increase was mainly due to recognition of equity-settled share-based payments of approximately HK$72,351,000 (2006: HK$5,937,000) for the share options granted during the year, and increase in operating expenses as a result of growth in the operations of the Group.

The discount on acquisition of additional interest in a subsidiary for the year ended 31 December 2007 amounted to approximately HK$1,342,000 represented the excess of the Group's additional interest in the fair values of the net assets of GDC Technology Limited ("GDC Technology"), a subsidiary of the Company over the cost of the subscription of 53,388,178 new shares of GDC Technology at HK$2 per share in November 2007.

Gain on disposal and dilution of interests in subsidiaries of approximately HK$375,680,000 for the year ended 31 December 2007 included (i) approximately HK$335,550,000 from the gain on disposal and dilution of the Group's interest in Global Digital Creations Holdings Limited ("GDC"), a subsidiary of the Company with its shares listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited from issue of approximately 378,000,000 new shares in total by GDC through completion of one subscription and three top-up placing and subscriptions and exercise of its share options during the year and disposal of approximately 44,106,000 shares of GDC by the Group; (ii) approximately HK$40,295,000 from the gain on dilution of the Group's interest in GDC Technology upon the completion of the subscription of 52,383,580 shares of GDC Technology at a consideration of US$6.5 million (or equivalent to approximately HK$50,570,000) in January 2007; and (iii) approximately HK$165,000 from the net loss on further dilution of the Group's interest in GDC Technology upon exercise of share options of GDC Technology during the year. With these additional funding, both GDC and GDC Technology have been in a better position to expedite the rolling out of their business plans and enhanced the research and development activities.

Management Discussion and Analysis

Gain on disposal of interest in a jointly controlled entity of approximately HK$61,039,000 for the year ended 31 December 2007 represented the gain on disposal of the Group's 44% interest in 北京東直門國際公寓有限公司 Beijing Dongzhimen International Apartment Co. Ltd. ("Beijing Dongzhimen") for a consideration of RMB170,000,000. The disposal was approved by the independent shareholders of the Company in January 2007 and was completed in June 2007 upon receipt of approval from the relevant authorities in the PRC.

Gain on disposal of partial interests in subsidiaries of approximately HK$26,506,000 for the year ended 31 December 2006 included (i) gain of approximately HK$24,711,000 on disposal of partial interest in South China International Leasing Company Limited ("South China Leasing"). During that year, due to the Group had induced a new investor to South China Leasing to strengthen its capital structure in order to speed up its development, the Group's interest in South China Leasing, direct and indirect, has been diluted to 50%. South China Leasing was therefore changed from a subsidiary to an associate; and (ii) gain of approximately HK$1,795,000 on transfer of 15% interest in GDC Technology to its management for an aggregate cash consideration of HK$1,600,000 during that year.

Overall, the Group recorded profit of approximately HK$425,661,000 for the year ended 31 December 2007 attributable to equity holders of the Company, when compared with that loss of approximately HK$15,204,000 for the year 2006. Excluding the non-cash expense on recognition of equity-settled share-based payments, such adjusted profit for the year attributable to equity holders of the Company amounted to approximately HK$498,012,000.

Management Discussion and Analysis

Business Review

Cultural Recreations Content Provision and Distribution

The significant improvement in this business was mainly come from our digital content distribution and exhibitions division, and CG creation and films and television programme production division.

Digital content distribution and exhibitions

This division reported a significant improvement for the year ended 31 December 2007. The majority of the revenue was derived from sales of digital cinema equipment and digital signage, the products were sold worldwide including the United States, Europe, Africa and Asia markets. The Group also delivered and installed equipment to new 3D digital cinema theatres in Hong Kong with its new product – DCI-2000 Digital Cinema Integrated Projection System. Besides, the certificate of Hong Kong origin with CEPA (Closer Economic Partnership Arrangement) has been issued by Hong Kong Trade and Development Council for DCI-2000 which can exempt the custom duty of DCI-2000 imported to the PRC. The Group continues to be the market leader in Asia, in particularly in the PRC where it enjoys more than 95% market share in digital cinemas in the PRC.

During the year, the Group completed digitalisation of a high profile cinema multiplex in the PRC, based on the state-of-the-art Digital-Cinema-Total-Solution platform designed ground up by the Group. With the Group's total solution for digital cinema, the cinema operator can now display the full array of trailers, advertisements and alternative content on both the in-foyer displays and in-theatres screens through a centrally controlled Theater Management System that in turns is remotely monitored by Network Operation Centre ("NOC"). The various display devices can now be programmed from the ticketing system to playback all kind of content in coherency and up-to-the-last minute media can be delivered to all the various display devices connected to a central server. The installed system was so successful that other high-end cinema multiplexes in the PRC and Hong Kong also installed the similar system supplied by the Group.

Management Discussion and Analysis

For the Group's networked digital signage solutions, its use is not only limited to cinema multiplex, but also apply to other locations, such as shopping malls. Up to the date of this report, the Group has delivered and installed to more than 10 shopping malls in Singapore with its digital signage solutions.

CG creation and films and television programme production

The Group's business volume in this division grew significantly for the year ended 31 December 2007 and it was the first time for this division to have net profit in its entire history. When compared with that for the year 2006, this division reported a growth of 44% in revenue and 102% in gross profit. While the Group received repeated orders from existing clients, the Group also won production contract from two new clients. The success in expending client base was largely attributed to the effective marketing effort and the quality, reliability and predictability of the Group's service, which won recognition in the industry. Three renowned entertainment content distributors in Hollywood have respectively committed to distribute nine direct-to-home movies and three television series produced or co-produced by the Group. Some of these products were already commercially available in the United States, Australia and Europe markets. In addition, one theatrical film partially produced by the Group was released in Europe during the year. At present, in addition to domestic business in the PRC, the Group expands its customer base to North America, Europe, Asia and the Middle East regions.

During the year, the Group has also launched one movie in the PRC and Hong Kong and two television series in the PRC.

The Group's achievement in exporting CG animation services and contents has been recognised by the PRC government. The Group was awarded the "Key National Enterprises for Cultural Export 2007-2008" jointly by the Ministry of Commerce, the Ministry of Culture, the State Administration of Radio, Film and Television (SARFT) and the General Administration of Press and Publication. Such award was a prestigious endorsement of the Group's success in positioning itself as an active player in the global digital entertainment market.

Management Discussion and Analysis

CG training

CG training division served as a core component of its strategy towards professionalism. Tailored for students in the PRC, its training courses focused on the basic knowledge of CG production. With the best training, highest graduates employment rate and comprehensive training materials, the Group maintained a leading position in the CG professional training domain in the PRC. The Group was highly recognised by different departments and players in the industry and received several rewards in the PRC.

Through continued improvement in the management system, enhancement in the infrastructure, provision of best training environment and focused marketing programs, this division recorded steady revenue growth of approximately 21% for the year ended 31 December 2007, comparing with that for the year 2006.

Financial Service Provision

Financial Investment

The Group continues operating the business of financial service through首方投資管理(深圳)有限公司("Capital Steel"). During the year ended 31 December 2007, Capital Steel approached several financial institutions in the PRC to look for investment opportunities, and simultaneously provide financial and asset management services.

Finance Leasing

The Group continues operating the business of finance leasing through South China Leasing. During the year ended 31 December 2007, the amount of contracts signed by South China Leasing grew significantly and its revenue improved to approximately HK$116,641,000 for the year, increased by approximately 109% comparing with that for the year 2006. Upon completion of the acquisition of further 30% effective interest in South China Leasing in November 2007, South China Leasing became a subsidiary of the Company, the Group can then increase its participation in the PRC financial leasing market, which is beneficial to the Group.

Management Discussion and Analysis

Property Investment and Management

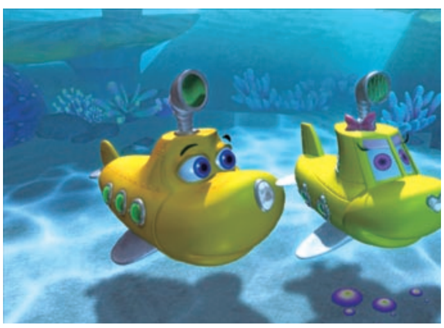
Both rental income and resalable value of the Group's investment properties have been improved comparing with the year 2006. The Group was receiving stable cash flow from rental income.

During the year, the disposal of the Group's interest in Beijing Dongzhimen was completed. The Group would reinvest the consideration received for developing other businesses, including cultural recreations content provision and distribution, and financial service provision.

Outlook

Cultural Recreations Content Provision and Distribution

Digital content distribution and exhibitions



Many industry observers agree that the conversion of film projectors-based analogue cinema to digital projector and server based digital cinema will definitely take place as different parties in the industry, including but not limited to film producers, distributors and exhibitors can gain from the digital cinema technology. Digital cinema can achieve cost savings, improved copyrights protection, greater flexibility to exhibitors for the booking of alternative content such as concerts and sporting events, new digital 3D contents and improved visual and audio qualities. However, less than 5% of the world cinemas have converted to digital by the end of the year 2007 with approximately three quarters of the digital screens in the United States. This is largely due to the cost of conversion is a multi-billions undertaking.

Although the conversion to digital is not much, there are a rapidly growing number of cinemas go digital recently, especially in the United States because of the availability of the sound business model, virtual print fees ("VPF") sponsored by the Hollywood studios to finance the conversion of theatres there. During the year, intense negotiations for VPF deals were conducted resulting a European VPF deal, a company in Europe signed VPF contracts with five major Hollywood studios up to the date of this report for its roll-out plan of digital cinemas there. The extension of VPF to international territories outside the United States will facilitate the global conversion and it is expected that more VPF deals will be announced in the near future.

Management Discussion and Analysis

The Group is of the view that such trend will bring ample business opportunities to the Group, which is one of the world leading server manufacturers and has been actively developing its digital cinema business in recent years. It is expected there will be further expansion of the Group's business in this division for the year 2008 and thereafter.

To capture the potential opportunities, the Group successfully strengthened its production facilities in Shenzhen and Hong Kong in preparation of mass production of its products. The initial production capacity aimed to produce 250 units per month with the aim of ramping up the production to 400 units in the year 2008. The Shenzhen office has also started its 24x7 Customer Service Center, which provides round-the-clock call service for exhibitors and monitors the progress of screenings of movies. Besides, the Group has also set up its office in the United States to enhance its service and marketing activities there.

In addition, CFGDC Digital Cinema Company Limited ("PRC Media JV"), the sino-foreign joint venture with CFGC for the deployment of digital cinema network and related businesses in the PRC was established and its 49% interest was transferred to the Group in November 2007. As at 31 December 2007, about 450 units of digital cinema equipment were purchased for installation to cinemas in all the 27 provinces in the PRC. The PRC Digital Cinema Project would be processed further with an aim to promote the digital cinema business in the PRC.

The box office in the PRC increased continuously over the past five years at above 25% per annum, in accordance to the information provided by SARFT, the box office for the year increased by approximately 27% to approximately RMB3.3 billion. With the blooming economy development and the strong domestic consumption in the PRC, it is expected the box office in the PRC will increase further in the future and the revenue of the PRC Digital Cinema Project, which is based on sharing of box office receipts with those cinemas using the digital cinema equipment for distribution of digital motion pictures, will increase accordingly. Besides, CFGC and the Group have also explored the alternative revenue in addition to the share of box office for the PRC Digital Cinema Project.

Management Discussion and Analysis

CG creation and films and television programme production

Negotiations for new orders and various partnerships for CG creation and production are underway. Considering the value of CG orders under discussion and the clients' increased trust and dependency on the Group and the fact that the Group's reputation in the industry is being enhanced, revenue, eliminating seasonal effect, is expected to growth in the foreseeable future. It is worth more appreciation that all existing clients of the Group have expressed interest or commitment to collaborate on new projects with the Group.

The market sensibility, production skills, access to global distribution channels, and profit generated in the past two years formed a solid foundation for the Group's original content creation initiatives. In addition to maintaining rapid growth in work-for-hire content creation business, the Group is actively developing its original content creation business, including in the form of co-production and sole investment, a CG feature movie "Little Happy Submarine" co-produced by the Group is scheduled to be theatrically released in summer 2008. The Group also expects to start generating IP sales revenue globally through the success of its co-produced properties.

The CG industry certainly is in a rapidly growing market both domestically and internationally. In order to maintain the Group's leadership position in the PRC and siege the market opportunities worldwide in this industry, the Group will continuously improve its production efficiency and creative ability. In order to expand its production capacity, the Group will establish another studio in the city of Chongqing, it has completed the feasibility study and reached mutual understanding with the local government on significant business terms such as location and government sponsorship.

Furthermore, with the support of the local municipal government, the Group is constructing its CG headquarters building at Shenzhen High-tech Industrial Park and the construction is scheduled to be completed in the year 2009. Upon completion, the Group will own the most modern, largest ever single building constructed and used for the creation of digital entertainment content in the PRC, the Group's CG production capacity and efficiency will enhance further at that time.

Management Discussion and Analysis

On the other hand, the Group will also focus at producing television series to gain relatively reliable return. At present, six television series have been scheduled to broadcast in the year 2008 and production of another two series are under planning.

CG training

With the encouragement from the PRC government on subcontracting foreign CG projects and the development of domestic CG and game industries, the demand for equipped people in this field increased. The aim of the Group to provide vocational training and the courses designed by the Group emphasising practical skills and including more case studies are in line with the market needs and can train up the production capability of the students. Besides, the Group will consider cooperating with the high schools and universities and companies in the CG and game industries to tailor make some advanced courses for their students or employees.

The Group's training centres in Shanghai and Shenzhen have already certified by the local government to be a vocational training centre, and the Group is considering the establishment of its third and forth training centres in the year 2008, this will strengthen the training brand of the Group in the PRC.

To conclude, the Group will further expand its training network throughout the PRC with Shanghai, Shenzhen and its new training centres as the core centers. The Group will also upgrade and strengthen its training system, the quality of its teaching staff and the graduate employment network, and diversify its revenue stream.

Financial Service Provision

Financial Investment

Facing the dynamic market opportunities and economic environment in the PRC, merger and acquisition, reformation and restructuring are expected to be occurred in many different industries, the Group will proactively grasp the development opportunities by providing clients consultancy service or investing in high potential businesses, such as trust and insurance.

Management Discussion and Analysis

Finance Leasing

With the expected blooming economy development in the PRC, the Group expects that the finance leasing business in the PRC will further expand and this will bring ample business opportunities to the Group. Upon completion of the acquisition of further 30% effective interest in South China Leasing in November 2007, the Group will increase its support to speed up development of the finance leasing business. The Group will not only continue focusing on finance leasing of large development projects, such as aircrafts, container ships, energy and electricity, etc. but also explore different financing methods to lower its finance costs.

Property Investment and Management

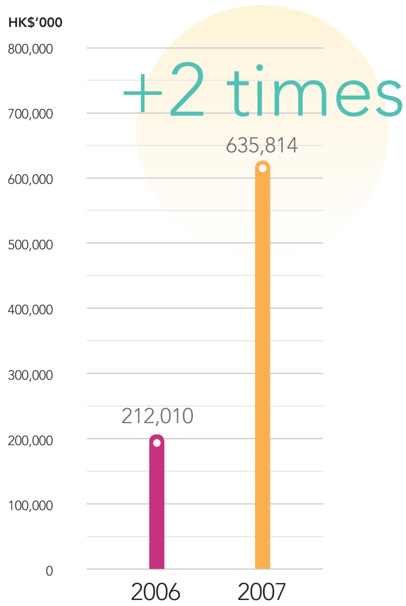
The Directors expect investment properties in Hong Kong will continue to contributable stable cash return to the Group in the foreseeable future.

Liquidity and Financial Resources

As at 31 December 2007, the Group had bank balances and cash, restricted bank deposits and pledged bank deposits of approximately HK$463.6 million (2006: HK$34.7 million), HK$72.5 million (2006: Nil) and HK$8.9 million (2006: HK$1.0 million), respectively, which were mainly denominated in Hong Kong dollars, Renminbi and United States dollars. The increase was mainly from net proceeds received mainly from the issue of shares by GDC and GDC Technology of approximately HK$467.5 million in total during the year ended 31 December 2007, and proceed received from disposal of interests in Beijing Dongzhimen and GDC of approximately HK$174.2 million and HK$68.3 million, respectively, proceeds from exercise of share options of subsidiaries of approximately HK$25.8 million, netting off with purchase of intangible asset and property, plant and equipment of approximately HK$88.6 million and HK$15.1 million, respectively, and the repayment of borrowings and to a fellow subsidiary of approximately HK$71.7 million and HK$40.0 million, respectively.

Management Discussion and Analysis

Equity attributable to equity holders of the Company



The Group's borrowings amounted to approximately HK$1,417.4 million as at 31 December 2007, of which approximately HK$362.3 million were repayable within twelve months from 31 December 2007 and approximately HK$1,055.1 million were repayable after twelve months from 31 December 2007. All loans bear interest at market rates and are wholly repayable within five years. As at 31 December 2007, gearing ratio (calculated as borrowings less bank balances and cash, restricted bank deposits and pledged bank deposits divided by total equity) was approximately 90% (2006: 56%). The Group's leverage increased significantly was mainly attributable to consolidation of the borrowings of South China Leasing of approximately HK$1,333.9 million as at 31 December 2007 upon completion of the acquisition of further 30% effective interest in South China Leasing in November 2007

As at 31 December 2007, the Group had current ratio of approximately 212% (2006: 185%) based on current assets of approximately HK$947.5 million and current liabilities of approximately HK$446.9 million.

Capital Structure

The equity attributable to equity holders of the Company amounted to approximately HK$635.8 million as at 31 December 2007 (2006: HK$212.0 million). The increase was mainly due to (i) the profit for the year ended 31 December 2007 attributable to equity holders of the Company of approximately HK$425.7 million, (ii) recognition of equity-settled share-based payments for the share options granted by the Company of approximately HK$14.9 million, (iii) exchange differences on translation of foreign operations of approximately HK$12.5 million, and (iv) proceeds from exercise of share options of approximately HK$5.5 million, netting off with (v) special reserve upon the Group's acquisition of additional interest in GDC Technology attributable to equity holders of the Company of approximately HK$23.5 million and (vi) release of translation reserve upon disposal of interest in a jointly controlled entity of approximately HK$12.4 million.

Management Discussion and Analysis

Material Acquisition, Disposals and Significant Investment

Other than the disposal and dilution of interests in GDC and GDC Technology, disposal of interest in Beijing Dongzhimen, acquisition of PRC Media JV, and acquisition of additional interest in South China Leasing, GDC and GDC Technology as mentioned above and in notes 11, 12, 24 and 43 to the consolidated financial statements, the Group had no material acquisitions, disposals and significant investment during the year ended 31 December 2007.

Charge on Assets

As at 31 December 2007, the Group has the following charge on assets:

(i) The Group's investment properties and leasehold land and building with an aggregate carrying value of approximately HK$171.4 million and a bank deposit of approximately HK$1.1 million were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK$78.8 million.

(ii) The Group's finance lease receivables with a carrying value of approximately HK$1,345.2 million were pledged to banks to secure for bank borrowings with outstanding amount of approximately HK$1,333.9 million.

(iii) There were bank deposits of approximately HK$72.5 million restricted for the repayment of bank borrowings, which will be released upon full settlement of the relevant bank borrowings.

(iv) The Group pledged a deposit amounted to approximately HK$7.8 million to a bank to secure a purchase agreement entered into with an independent third party. The pledged bank deposit will be released upon the settlement of the relevant purchase agreement.

Management Discussion and Analysis

Foreign Exchange Exposure

The normal operations and investments of the Group are mainly in Hong Kong and the PRC, with revenue and expenditure denominated in Hong Kong dollars, Renminbi and United States dollars. The Directors believe that the Group does not have significant foreign exchange exposure. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2007, the Group has no significant exposure under foreign exchange.

Contingent Liabilities

Saved as disclosed in note 45 to the consolidated financial statements about litigation proceeding, the Group had no significant contingent liabilities as at 31 December 2007.

Employees

As at 31 December 2007, the Group employed 492 (2006: 383) full time employees (excluding those under the payroll of the associates and the jointly controlled entity of the Group). The Group remunerated its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to employee of the Group. Remuneration packages are reviewed either annually or by special increment.

During the year ended 31 December 2007, the Company and its subsidiaries has not paid or committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individual.

Corporate Governance Report

The Company is committed to maintaining good corporate governance standard and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the financial year ended 31 December 2007, except for the following deviations:–

- Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election.

  None of the existing Non-executive Directors of the Company was appointed for a specific term. However, Non-executive Directors of the Company (except for the Chairman) are subject to retirement by rotation and re-election at annual general meetings at least once every three years in accordance with the provisions of the Bye-laws of the Company (the "Bye-laws"). As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code. In order to comply with code provision A.4.1 of the Code, an engagement letter has been entered with each of the Non-executive Directors of the Company for a term of three years commencing on 1 January 2008.

- Under the second part of code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

  In order to comply with the applicable laws of Bermuda, the Chairman and the Managing Director are not subject to retirement by rotation under the Bye-laws. However, they will voluntarily retire and offer themselves for re-election at least once every three years in order to comply with the second part of code provision A.4.2 of the Code.

- Under the second part of code provision B.1.1 of the Code, a majority of the members of the remuneration committee should be independent non-executive directors.

  Subsequent to the re-designation of Mr. Liu Wei from an Independent Non-executive Director to a Non-executive Director on 20 December 2006, the Company was left with two Independent Non-executive Directors, which only constituted half of the members of the Remuneration Committee. However, the Company has appointed Mr. Yip Kin Man, Raymond as an Independent Non-executive Director as well as a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company on 19 January 2007. Thereafter, the Independent Non-executive Directors of the Company constitute the majority of the members of the Remuneration Committee.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES (continued)

- Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

  The Chairman of the Board of Directors of the Company had not attended the annual general meeting of the Company held on 6 June 2007 (the "Meeting") as he had another business engagement. The Vice Chairman and Managing Director of the Company, who took the chair of the Meeting, together with other members of the Board and the Chairmen of the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Chairmen of the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

BOARD OF DIRECTORS

Composition

The Board currently comprises four Executive Directors, two Non-Executive Directors and three Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" of this annual report.

The Board includes a balanced composition of Executive and Non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

Non-executive Directors are of sufficient calibre and number for their views to carry weight. The functions of Non-executive Directors include, but not limited to:

- bringing an independent judgement at Board meetings;
- taking the lead where potential conflicts of interests arise;
- serving on Board committees if invited; and
- scrutinising the Company's performance.

The Board members have no financial, business, family or other material/relevant relationships with each other.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

Composition of the Board, including names of Independent Non-executive Directors of the Company, is disclosed in all corporate communications to shareholders.

Corporate Governance Report

BOARD OF DIRECTORS (continued)

Role and function

The Board is responsible for overall strategic formulation and performance monitoring of the Company and its subsidiaries (the "Group"). It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

Board meetings

The Board has four scheduled meetings a year at approximately quarterly intervals. Additional meetings would be arranged, if and when required. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Bye-laws.

The Company Secretary assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days' notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and all applicable rules and regulations are followed.

The Company Secretary is responsible for taking minutes of Board and Board committee meetings, drafts and final versions of which would be sent to Directors for comments and records respectively, in both cases within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are open for inspection by any Director/committee member.

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, a Board meeting will be held instead of by way of circulation.

Attendance records

During the financial year ended 31 December 2007, the Directors have made active contribution to the affairs of the Group and seven Board meetings were held to consider various projects contemplated by the Group and to review and approve the interim results and annual results of the Group.

Corporate Governance Report

BOARD OF DIRECTORS (continued)

Attendance records (continued)

Details of Directors' attendance records in 2007 are as follows:

	Meetings attended/Eligible to attend
Chairman	
Wang Qinghai	0/7
Executive Directors	
Cao Zhong	7/7
Chen Zheng	4/7
Wang Tian	4/7
Yuan Wenxin	4/7
Cheng Xiaoyu *(resigned on 13 August 2007)*	0/4
Non-executive Directors	
Leung Shun Sang, Tony	7/7
Liu Wei *(resigned on 31 January 2007)*	0/1
Independent Non-executive Directors	
Tam King Ching, Kenny	5/7
Zhou Jianhong	7/7
Yip Kin Man, Raymond *(appointed on 19 January 2007)*	6/6

Access to information

The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each Board meeting. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

Appointments and re-election of Directors

Appointment of new Directors is a matter for consideration by the Nomination Committee. The Nomination Committee will review the profiles of the candidates and make recommendations to the Board on the appointment, re-nomination and retirement of Directors.

Corporate Governance Report

BOARD OF DIRECTORS (continued)

Appointments and re-election of Directors (continued)

According to the Bye-laws, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such annual general meeting. Every Director, including those appointed for a specific term but except for the Chairman and the Managing Director, is subject to retirement by rotation at least once every three years.

Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice.

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors. One of the Independent Non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

Directors' and officers' liability

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Wang Qinghai assumes the role of the Chairman and Mr. Cao Zhong serves as the Vice Chairman and the Managing Director of the Company. The Chairman provides leadership for the Board and the Vice Chairman assists the Chairman to discharge his duties. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

Corporate Governance Report

BOARD COMMITTEE

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

Executive Committee

An Executive Committee of the Board was established in September 2005 and comprises all Executive Directors of the Company.

As at 31 December 2007, the members of the Executive Committee were as follows:–

- Cao Zhong *(Chairman)*
- Chen Zheng
- Wang Tian
- Yuan Wenxin

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group. The Executive Committee meets as and when required. During the year, twenty-four meetings of the Executive Committee were held.

Audit Committee

The Company has an Audit Committee which was established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants in December 1997. In November 2005, the Board adopted new terms of reference as the terms of reference of the Audit Committee for compliance with the requirements of the Listing Rules. The terms of reference of the Audit Committee are available on request and are posted on the Company's website.

The principal duties of the Audit Committee include, among other things:

- overseeing the relationship with the Company's auditor;
- reviewing the interim and annual financial statements; and
- reviewing the Company's financial reporting system and internal control procedures.

Corporate Governance Report

BOARD COMMITTEE (continued)

Audit Committee (continued)

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees and reasonable resources to discharge its duties properly.

The Audit Committee comprises three Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditor of the Company. The members of the Audit Committee during the year and their attendance were as follows:–

	Meetings attended/Eligible to attend
Tam King Ching, Kenny *(Chairman)*	2/2
Zhou Jianhong	2/2
Yip Kin Man, Raymond *(appointed on 19 January 2007)*	2/2

During the year, two meetings of the Audit Committee were held for, amongst other things:

- reviewing the final results of the Group for the financial year ended 31 December 2006; and
- reviewing the interim results of the Group for the six months ended 30 June 2007.

During the year, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

Nomination Committee

The Company established the Nomination Committee in September 2005 with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Nomination Committee are available on request and are posted on the Company's website.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;
- making recommendations to the Board on relevant matters relating to the appointment and re-appointment of Directors and succession planning for Directors; and
- assessing the independence of Independent Non-executive Directors.

Corporate Governance Report

BOARD COMMITTEE (continued)

Nomination Committee (continued)

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

The members of the Nomination Committee during the year and their attendance were as follows:–

	Meetings attended/Eligible to attend
Cao Zhong *(Chairman)*	1/1
Leung Shun Sang, Tony *(Vice Chairman)*	1/1
Tam King Ching, Kenny	1/1
Zhou Jianhong	1/1
Yip Kin Man, Raymond *(appointed on 19 January 2007)*	0/0

The Independent Non-executive Directors of the Company constitute the majority of the committee.

During the year, one meeting of the Nomination Committee was held for considering the nomination of Mr. Yip Kin Man, Raymond as an Independent Non-executive Director of the Company.

Remuneration Committee

The Company established the Remuneration Committee in September 2005 with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Remuneration Committee are available on request and are posted on the Company's website.

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving performance-based remuneration;
- determining the specific remuneration packages of all Executive Directors and senior management and making recommendation to the Board of the remuneration of Non-executive Directors;

Corporate Governance Report

BOARD COMMITTEE (continued)

Remuneration Committee (continued)

- reviewing and approving the compensation payable to Executive Directors and senior management and the compensation arrangements relating to dismissal or removal of Directors for misconduct; and

- ensuring that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee may consult the Chairman about their proposals relating to the remuneration of other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

The members of the Remuneration Committee during the year and their attendance were as follows:–

	Meetings attended/Eligible to attend
Leung Shun Sang, Tony *(Chairman)*	3/3
Cao Zhong *(Vice Chairman)*	3/3
Tam King Ching, Kenny	3/3
Zhou Jianhong	3/3
Yip Kin Man, Raymond *(appointed on 19 January 2007)*	2/2

The Independent Non-executive Directors of the Company constitute the majority of the committee.

During the year, three meetings of the Remuneration Committee were held for, amongst other things:

- reviewing the remuneration policies of the Company and the remuneration and terms of service contracts of the Executive Directors of the Company;

- determining the bonuses of the Executive Directors of the Company for the years 2006 and 2007; and

- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the years 2007 and 2008.

Corporate Governance Report

INTERNAL CONTROL

The Board is of the opinion that sound internal control systems will contribute to the effectiveness and efficiency of operations of the Group and to the safeguard of the Group's assets as well as the shareholders' investment.

The Board is responsible for overall ensuring, maintaining and overseeing the internal control systems of the Group. The Executive Committee helps the Board to discharge its responsibilities of ensuring and maintaining sound internal control functions by regularly and continuously reviewing and monitoring the internal control systems and processes so as to ensure that they can provide reasonable assurance against material errors of the Group.

The internal control system is embedded within the business processes so that it functions as an integral part of the overall operations of the Group. The system comprises a comprehensive organization structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organization structure, a reporting system has been developed which includes a reporting system from division head of each principal business unit to the Executive Committee.

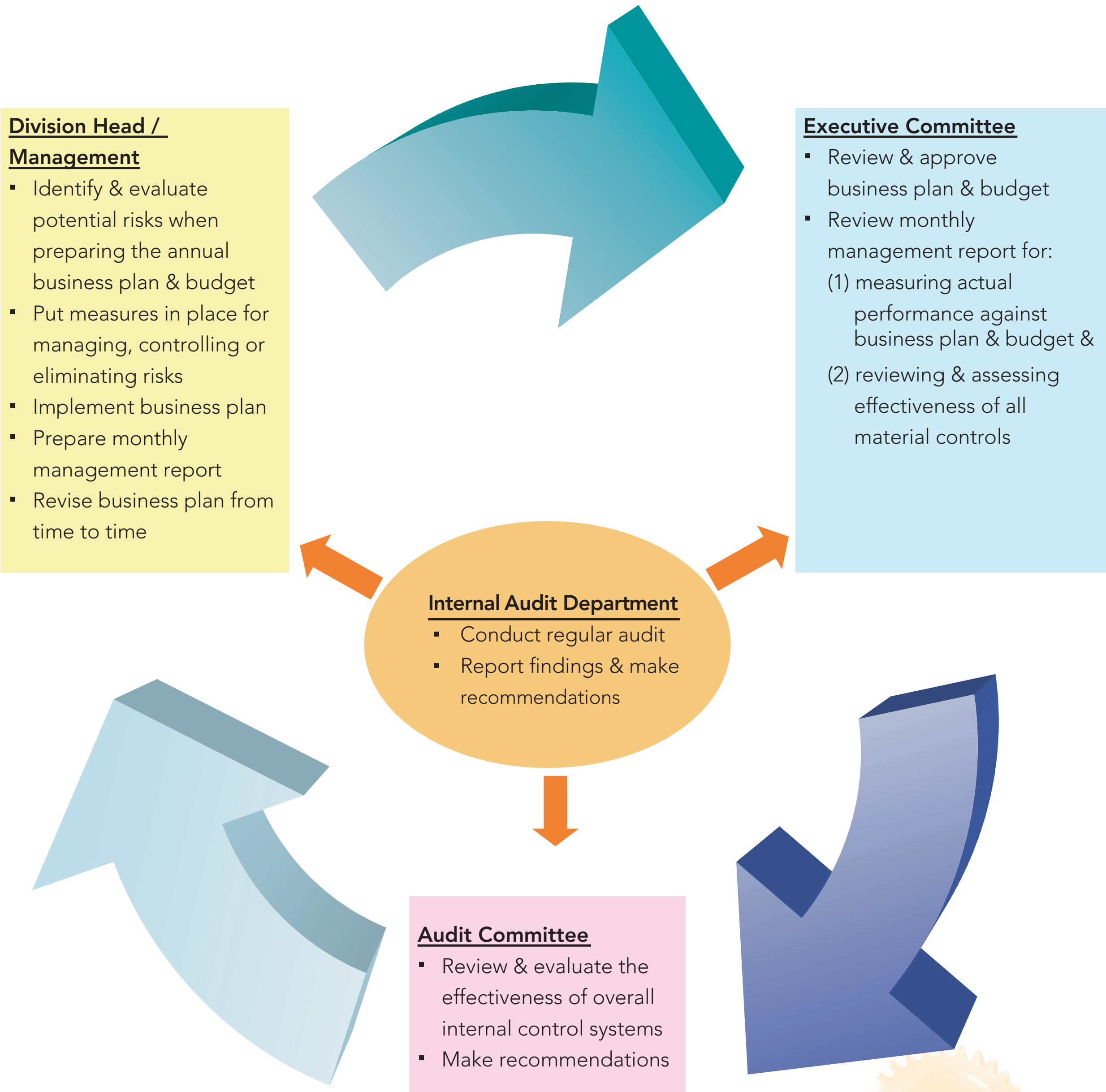
Business plan and budget are prepared by the division head of each principal business unit annually. In preparing the business plans and budgets, the management identifies and evaluates any potential risks. Measures will be put in place with an aim to ultimately manage, control or eliminate such risks.

The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews monthly management report on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and budget concerned. In this course, the Executive Committee also reviews and assesses the effectiveness of all material controls. The Executive Committee holds periodical meetings with the senior management of each principal business unit and the finance team to, amongst other matters, address the issues in such controls, identify areas of improvement and put the appropriate measures in place.

Corporate Governance Report

INTERNAL CONTROL (continued)

Internal control system



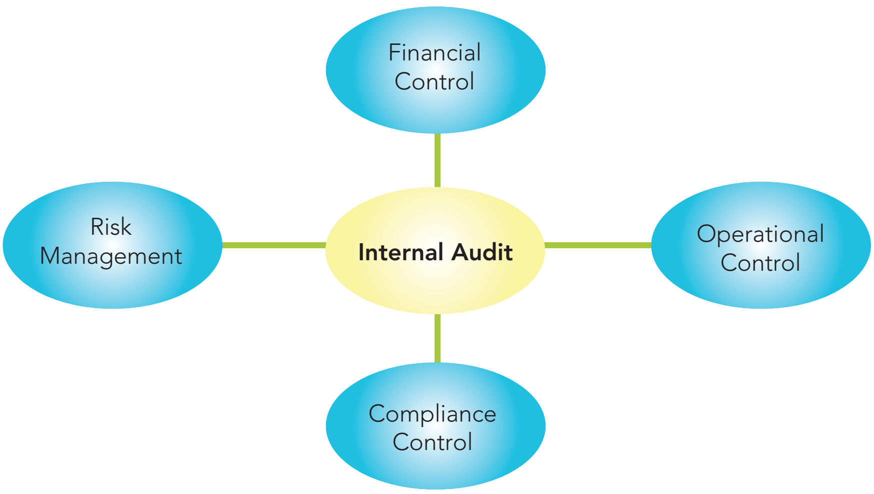
The internal control system is documented and if any revision is required, such information will be submitted to the Audit Committee for evaluation.

Corporate Governance Report

INTERNAL CONTROL (continued)

The Audit Committee assists the Board to fulfill its oversight role over the Group's internal control function by reviewing and evaluating the effectiveness of the overall internal control systems. The Company has set up an Internal Audit Department which assists the Audit Committee to discharge its duties in this aspect. The Internal Audit Department, which is independent to the operational departments of the Group, is responsible for conducting regular audits on the major activities of the Group. Its objective is to ensure that all material controls, including financial, operational and compliance controls as well as risk management, are in place and functioning effectively. The Internal Audit Department reports to the Audit Committee with its findings and makes recommendations to improve the internal control systems of the Group.

Internal audit functions



The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever changing business environment. During the year under review, the Board has been, through the Executive Committee and the Audit Committee (with the assistance from the Internal Audit Department), continuously reviewing the effectiveness of the Group's internal control systems.

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules as a code of conduct of the Company for Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2007.

Employees who are deemed to be in possession of unpublished price sensitive information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

AUDITOR'S REMUNERATION

During the year, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	**Fee paid/payable**
	HK$'000
Statutory audit services	3,138
Non-statutory audit services:	
Review on interim financial report	1,128
Special audit services	1,847
	6,113

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the interim and annual financial statements, announcements and other financial disclosure required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company, Messrs. Deloitte Touche Tohmatsu, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 65 to 66 of this annual report.

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and announcements. All shareholders' communications are also available on the Company's website at www.shougang-grand.com.hk.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Details of the poll voting procedures and rights of shareholders to demand a poll are included in the Company's circulars convening a general meeting. The chairman of a general meeting also explains the procedures for demanding and conducting a poll before putting a resolution to the vote on a show of hands and (except where a poll is demanded) reveals how many proxies for and against have been filed in respect of each resolution. The results of the poll, if any, will be published on the websites of the Stock Exchange and the Company respectively.

Report of the Directors

The Directors herein present their report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in notes 50 and 24 to the consolidated financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 67 to 162 of this annual report.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on pages 165 to 166 of this annual report.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 20 to the consolidated financial statements.

Particulars of the major investment properties of the Group as at the balance sheet date are set out on pages 163 to 164 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

Particulars of the major properties of the Group as at the balance sheet date are set out on page 164 of this annual report.

Report of the Directors

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 41 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 70 of this annual report.

DIRECTORS

The Directors of the Company during the year were as follows:

Wang Qinghai	
Cao Zhong	
Chen Zheng	
Wang Tian	
Yuan Wenxin	
Leung Shun Sang, Tony	
Tam King Ching, Kenny*	
Zhou Jianhong*	
Yip Kin Man, Raymond*	*(appointed on 19 January 2007)*
Liu Wei	*(resigned on 31 January 2007)*
Cheng Xiaoyu	*(resigned on 13 August 2007)*

* *Independent Non-executive Directors*

In accordance with clause 99(A) of the Company's Bye-laws, Mr. Leung Shun Sang, Tony and Ms. Zhou Jianhong will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

In order to comply with the second part of code provision A.4.2 of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), Mr. Cao Zhong, being the Company's Vice Chairman and Managing Director, will retire voluntarily and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The Directors of the Company who held office at 31 December 2007 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) at the balance sheet date as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules:

(a) Long positions in the shares and underlying shares of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company as at 31.12.2007
		Interests in shares	Interests under equity derivatives*	Total interests	
Wang Qinghai	Beneficial owner	–	11,368,000	11,368,000	0.99%
Cao Zhong	Beneficial owner	–	11,368,000	11,368,000	0.99%
Chen Zheng	Beneficial owner	–	11,368,000	11,368,000	0.99%
Wang Tian	Beneficial owner	4,000,000	5,094,000	9,094,000	0.79%
Yuan Wenxin	Beneficial owner	4,000,000	9,094,000	13,094,000	1.14%
Leung Shun Sang, Tony	Beneficial owner	8,278,000	11,368,679	19,646,679	1.71%
Tam King Ching, Kenny	Beneficial owner	–	1,136,000	1,136,000	0.10%
Zhou Jianhong	Beneficial owner	–	1,136,000	1,136,000	0.10%
Yip Kin Man, Raymond	Beneficial owner	–	1,136,000	1,136,000	0.10%

* *The relevant interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK$0.01 each in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Option Schemes" below.*

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(b) Long positions in the shares and underlying shares of Global Digital Creations Holdings Limited ("GDC"), an associated corporation of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in GDC: Interests in shares	Interests under equity derivatives*	Total interests	Total interests as to % to the issued share capital of GDC as at 31.12.2007
Cao Zhong	Beneficial owner	8,008,200	4,900,000	12,908,200	1.00%
Chen Zheng	Beneficial owner	8,008,200	4,900,000	12,908,200	1.00%
Wang Tian	Beneficial owner	820	–	820	0.00%
Leung Shun Sang, Tony	Beneficial owner	8,008,200	4,900,000	12,908,200	1.00%
Zhou Jianhong	Beneficial owner	500,615	–	500,615	0.04%

* *The relevant interests are unlisted physically settled options granted pursuant to GDC's share option scheme adopted on 18 July 2003 (the "GDC Scheme"). Upon exercise of the share options in accordance with the GDC Scheme, ordinary shares of HK$0.01 each in the share capital of GDC are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Option Schemes" below.*

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(c) Long positions in the shares and underlying shares of GDC Technology Limited ("GDC Tech"), an associated corporation of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in GDC Tech: Interests in shares	Interests under equity derivatives*	Total interests	Total interests as to % to the issued share capital of GDC Tech as at 31.12.2007
Cao Zhong	Beneficial owner	8,533,334	1,650,000	10,183,334	4.38%
Chen Zheng	Beneficial owner	8,533,334	1,650,000	10,183,334	4.38%
Leung Shun Sang, Tony	Beneficial owner	2,130,000	1,653,333	3,783,333	1.63%

* *The relevant interests are unlisted physically settled options granted pursuant to GDC Tech's share option scheme adopted on 19 September 2006 (the "GDC Tech Scheme"). Upon exercise of the share options in accordance with the GDC Tech Scheme, ordinary shares of HK$0.1 each in the share capital of GDC Tech are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Option Schemes" below.*

Save as disclosed above, at the balance sheet date, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Schemes" herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Wang Qinghai	Shougang Corporation#	Property investment	Director
Cao Zhong	China Shougang International Trade and Engineering Corporation#	Property investment	Director
	Shougang Holding (Hong Kong) Limited# ("Shougang Holding")	Property investment	Director

Such businesses may be carried out through its subsidiaries or associates or by way of other forms of investments.

The Board of Directors of the Company is independent from the boards of the above-mentioned entities and is accountable to the Company's shareholders. Coupled with the diligence of its Independent Non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities.

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At the balance sheet date, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had long positions of 5% or more in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares of the Company

Names of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the total issued share capital of the Company as at 31.12.2007	*Note(s)*
Shougang Holding	Interests of controlled corporations	489,450,710	42.55%	*1*
Wheeling Holdings Limited ("Wheeling")	Beneficial owner	430,491,315	37.42%	*1*
Prime Success Investments Limited ("Prime Success")	Beneficial owner	58,959,395	5.13%	*1*
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	133,048,717	11.57%	*2, 3*
Max Same Investment Limited ("Max Same")	Beneficial owner	91,491,193	7.95%	*2*
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	133,048,717	11.57%	*3*
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	133,048,717	11.57%	*3*
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	133,048,717	11.57%	*3*
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	133,048,717	11.57%	*3*

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Long positions in the shares of the Company (continued)

Notes:

1. Wheeling and Prime Success were wholly-owned subsidiaries of Shougang Holding and their interests were included in the interests held by Shougang Holding.

2. Max Same was a wholly-owned subsidiary of Cheung Kong and its interest was included in the interests held by Cheung Kong.

3. Li Ka-Shing Unity Holdings Limited ("Unity Holdco"), of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard was interested in one-third of the entire issued share capital, owned the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of Cheung Kong.

   In addition, Unity Holdco also owned the entire issued share capital of TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 held units in UT1.

   By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1 and TDT2 was deemed to be interested in the same block of shares in which Cheung Kong was interested under the SFO.

Save as disclosed above, at the balance sheet date, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position of 5% or more in the shares and underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this report.

Report of the Directors

SHARE OPTION SCHEMES

(a) Share option scheme of the Company

On 7 June 2002, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company.

The purpose of the Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contributions to the Company and/or its subsidiaries and/or its associated companies. The Scheme will remain in force for a period of 10 years commencing on 7 June 2002, being the date of adoption of the Scheme, to 6 June 2012.

Under the Scheme, the Directors may, at their discretion, offer Directors (including Executive and Non-executive Directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of the associated companies, and any suppliers, customers, consultants, advisers, agents, partners or business associates who, in the sole discretion of the Directors, will contribute or have contributed to the Company or any of its subsidiaries or any of the associated companies, share options to subscribe for shares of the Company.

The total number of shares which may be issued upon exercise of all outstanding share options granted under the Scheme is 154,548,679 which represents approximately 13.43% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares available for issue upon exercise of all share options which may be granted under the Scheme is 32,716,246, representing approximately 2.84% of the issued share capital of the Company as at the date of this annual report. The total number of shares issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5 million (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The period during which a share option may be exercised will be determined by the Directors of the Company at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Directors of the Company are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

Report of the Directors

SHARE OPTION SCHEMES (continued)

(a) Share option scheme of the Company (continued)

The exercise price in relation to each share option will be determined by the Directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the Scheme. The offer of a grant of share options must be accepted within 60 days from the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

No share option was cancelled in accordance with the terms of the Scheme during the year. Details of movements in the share options under the Scheme during the year were as follows:

	Options to subscribe for shares of the Company									
Category or name of grantees	At the beginning of the year	Transferred from other category during the year	Transferred to other category during the year	Granted during the year [1]	Exercised during the year [2]	Lapsed during the year	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company										
Wang Qinghai	–	–	–	11,368,000	–	–	11,368,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.41
Cao Zhong	–	–	–	11,368,000	–	–	11,368,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.41
Chen Zheng	–	–	–	11,368,000	–	–	11,368,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.41
Wang Tian	–	–	–	9,094,000	(4,000,000)	–	5,094,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.41
Cheng Xiaoyu	–	–	–	9,094,000 [3]	–	(9,094,000) [3]	–	19.01.2007	19.01.2007 – 18.01.2017	HK$0.41
Yuan Wenxin	–	–	–	9,094,000	–	–	9,094,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.41
Leung Shun Sang, Tony	75	–	–	–	–	–	75	23.08.2002	23.08.2002 – 06.06.2012	HK$0.73
	604	–	–	–	–	–	604	06.03.2003	06.03.2003 – 05.03.2013	HK$0.76
	–	–	–	11,368,000	–	–	11,368,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.41
	679	–	–	11,368,000	–	–	11,368,679			

Report of the Directors

SHARE OPTION SCHEMES (continued)

(a) Share option scheme of the Company (continued)

	Options to subscribe for shares of the Company									
Category or name of grantees	At the beginning of the year	Transferred from other category during the year	Transferred to other category during the year	Granted during the year[1]	Exercised during the year[2]	Lapsed during the year	At the end of the year	Date of grant	Exercise period	Exercise price per share
Liu Wei	–	–	(1,136,000)[4]	1,136,000	–	–	–	19.01.2007	19.01.2007 – 18.01.2017	HK$0.41
Tam King Ching, Kenny	–	–	–	1,136,000	–	–	1,136,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.41
Zhou Jianhong	–	–	–	1,136,000	–	–	1,136,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.41
Yip Kin Man, Raymond	–	–	–	1,136,000	–	–	1,136,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.41
	679	–	(1,136,000)	77,298,000	(4,000,000)	(9,094,000)	63,068,679			
Employees of the Group	1,330,000	–	–	–	–	–	1,330,000	06.03.2003	06.03.2003 – 05.03.2013	HK$0.76
	–	–	–	15,200,000	(7,000,000)	–	8,200,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.41
	1,330,000	–	–	15,200,000	(7,000,000)	–	9,530,000			
Other participants	–	1,136,000[4]	–	1,400,000	(2,536,000)	–	–	19.01.2007	19.01.2007 – 18.01.2017	HK$0.41
	1,330,679	1,136,000	(1,136,000)	93,898,000	(13,536,000)	(9,094,000)	72,598,679			

Notes:

1. (a) The closing price of the shares of the Company immediately before the date on which the share options were granted was HK$0.36 per share.

   (b) The fair value per option of which at the date of grant was HK$0.16. This fair value was calculated using the Binominal Option Valuation pricing model. The inputs into the model were as follows:

Weighted average share price	HK$0.41
Exercise price	HK$0.41
Expected volatility	55.59%
Option life	10 years
Risk-free rate	4.041%
Expected dividend yield	0%

Report of the Directors

SHARE OPTION SCHEMES (continued)

(a) Share option scheme of the Company (continued)

Notes: (continued)

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 10 years. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised the total expense of approximately HK$14,949,000 for the year ended 31 December 2007 in relation to share options granted by the Company.

2. The weighted average closing price of the shares of the Company immediately before the date on which the share options were exercised was approximately HK$0.82 per share.

3. The share options were held by Ms. Cheng Xiaoyu who ceased to be a director of the Company during the year and such share options were lapsed on 13 September 2007.

4. The share options were held by Mr. Liu Wei who ceased to be a director of the Company during the year. The Board of Directors of the Company approved the extension of the exercise period for such share options up to 18 January 2017 and such share options were re-classified from the category of "Directors of the Company" to "Other participants" during the year.

(b) Share option scheme of a subsidiary of the Company – GDC

GDC, a non-wholly owned subsidiary of the Company which is listed on the Growth Enterprise Market of the Stock Exchange ("GEM"), has adopted the GDC Scheme by a shareholders' resolution passed at its special general meeting held on 18 July 2003.

The purpose of the GDC Scheme is to enable GDC to grant share options to eligible participants as rewards for their contributions to GDC and its subsidiaries (the "GDC Group"). The GDC Scheme will remain in force for a period of 10 years commencing on 4 August 2003, being the date on which dealings in the shares of GDC first commenced on the GEM, to 3 August 2013.

Under the GDC Scheme, the directors of GDC may, at their discretion, offer any full-time employees, directors (including independent non-executive directors) and part-time employees with weekly working hours of 10 hours and above, of the GDC Group and any advisor (professional or otherwise) or consultant, distributors, suppliers, agents, customers, joint venture partners, service providers to the GDC Group who the directors of GDC consider, in their sole discretion, have contributed or contribution to the GDC Group, share options to subscribe for share of GDC.

Report of the Directors

SHARE OPTION SCHEMES (continued)

(b) Share option scheme of a subsidiary of the Company – GDC (continued)

The total number of shares of GDC which may be issued upon exercise of all outstanding share options granted under the GDC Scheme is 55,722,840 which represents approximately 4.30% of the issued share capital of GDC as at the date of this annual report. The maximum number of shares of GDC available for issue upon exercise of all share options which may be granted under the GDC Scheme is 81,909,550, representing approximately 6.32% of the issued share capital of GDC as at the date of this annual report. The total number of shares of GDC issued and to be issued upon the exercise of share options granted under the GDC Scheme (including both exercised and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of GDC as at the date of grant. Any further grant of share options in excess of this limit is subject to approval of shareholders of GDC and the Company respectively in general meeting. Share options granted to a director, chief executive, management or substantial shareholder of GDC or the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of GDC and/or the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of GDC or the Company, or to any of their respective associates, in excess of in aggregate 0.1% of the shares of GDC in issue (based on the date of offer) and an aggregate value of HK$5 million (based on the closing price of the shares of GDC at the date of each offer), within any 12-month period, are subject to approval of the shareholders of GDC and/or the Company in advance in general meeting.

The period during which a share option may be exercised will be determined by the directors of GDC at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the GDC Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors of GDC are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the directors of GDC at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of GDC as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of GDC as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of GDC on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the GDC Scheme. The offer of a grant of share options must be accepted within 28 days from the date of the offer.

Report of the Directors

SHARE OPTION SCHEMES (continued)

(b) Share option scheme of a subsidiary of the Company – GDC (continued)

No share option was cancelled or lapsed in accordance with the terms of the GDC Scheme during the year. Details of movements in the share options under the GDC Scheme during the year were as follows:

	Options to subscribe for shares of GDC								
Category or name of grantees	At the beginning of the year	Transferred from other category during the year	Transferred to other category during the year	Granted during the year[1]	Exercised during the year[2]	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company									
Cao Zhong	8,008,200	–	–	–	(8,008,200)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	–	–	–	4,900,000	–	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	8,008,200	–	–	4,900,000	(8,008,200)	4,900,000			
Chen Zheng	8,008,200	–	–	–	(8,008,200)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	–	–	–	4,900,000	–	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	8,008,200	–	–	4,900,000	(8,008,200)	4,900,000			
Wang Tian	800,820	–	–	–	(800,820)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
Cheng Xiaoyu	800,820	–	(800,820)[3]	–	–	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
Yuan Wenxin	800,820	–	–	–	(800,820)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
Leung Shun Sang, Tony	8,008,200	–	–	–	(8,008,200)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	–	–	–	4,900,000	–	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	8,008,200	–	–	4,900,000	(8,008,200)	4,900,000			
Liu Wei	800,820	–	(800,820)[4]	–	–	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
Tam King Ching, Kenny	800,820	–	–	–	(800,820)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
Zhou Jianhong	800,820	–	–	–	(800,820)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	28,829,520	–	(1,601,640)	14,700,000	(27,227,880)	14,700,000			
Employees of the Group	37,116,400	–	–	–	(27,408,200)	9,708,200	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	–	–	–	3,000,000	(700,000)	2,300,000	22.03.2007	22.03.2007 – 21.03.2010	HK$1.07
	–	–	–	5,680,000	(2,357,000)	3,323,000	04.04.2007	04.04.2007 – 03.04.2010	HK$1.52
	–	–	–	21,900,000	–	21,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	37,116,400	–	–	30,580,000	(30,465,200)	37,231,200			
Other participants	3,902,460	1,601,640[3&4]	–	–	(3,902,460)	1,601,640	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	–	–	–	1,550,000	(830,000)	720,000	04.04.2007	04.04.2007 – 03.04.2010	HK$1.52
	–	–	–	1,470,000	–	1,470,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	3,902,460	1,601,640	–	3,020,000	(4,732,460)	3,791,640			
	69,848,380	1,601,640	(1,601,640)	48,300,000	(62,425,540)	55,722,840			

Report of the Directors

SHARE OPTION SCHEMES (continued)

(b) Share option scheme of a subsidiary of the Company – GDC (continued)

Notes:

1. (a) The closing prices of the shares of GDC immediately before the date on which the share options were granted on 22 March 2007, 4 April 2007 and 30 October 2007 were HK$1.06 per share, HK$1.56 per share and HK$2.68 per share, respectively.

   (b) The fair values per option of which at the dates of grant on 22 March 2007, 4 April 2007 and 30 October 2007 were approximately HK$0.58, HK$0.86 and HK$0.88, respectively. These fair values were calculated using the Binominal Option Valuation pricing model. The inputs into the model were as follows:

	Granted on 22 March 2007	Granted on 4 April 2007	Granted on 30 October 2007
Weighted average share price	HK$1.07	HK$1.52	HK$2.70
Exercise price	HK$1.07	HK$1.52	HK$2.75
Expected volatility	89%	97%	68%
Option life	3 years	3 years	5 years
Risk-free rate	3.88%	3.89%	3.49%
Expected dividend yield	NIL	NIL	NIL

   Expected volatilities were determined by using the historical volatility of GDC's share price over the previous 3 years and 5 years (as the case may be). The expected lives used in the model have been adjusted, based on GDC management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations. The values of the options vary with different variables of certain subjective assumptions.

   The Group recognised the total expense of approximately HK$41,488,000 for the year ended 31 December 2007 in relation to share options granted by GDC.

2. The weighted average closing price of the shares of GDC immediately before the dates on which the share options were exercised was approximately HK$2.13 per share.

3. The share options were held by Ms. Cheng Xiaoyu who ceased to be a director of the Company during the year and such share options were re-classified from the category of "Directors of the Company" to "Other participants" during the year.

4. The share options were held by Mr. Liu Wei who ceased to be a director of the Company during the year and such share options were re-classified from the category of "Directors of the Company" to "Other participants" during the year.

Report of the Directors

SHARE OPTION SCHEMES (continued)

(c) Share option scheme of a subsidiary of the Company – GDC Tech

The Company and GDC have adopted the GDC Tech Scheme by a shareholders' resolution passed at their respective special general meetings held on 19 September 2006.

The purpose of the GDC Tech Scheme is to enable GDC Tech to grant options to eligible participants as rewards for their contributions to GDC Tech, its subsidiaries and its holding companies (including intermediate and ultimate holding companies) (the "GDC Tech Group"). The GDC Tech Scheme will remain in force for a period of 10 years commencing on 19 September 2006, being the date of adoption of the GDC Tech Scheme, to 18 September 2016.

Under the GDC Tech Scheme, the directors of GDC Tech may, at their discretion, offer any full-time or part-time employees, executives, officers and directors (including non-executive directors and independent non-executive directors) of the GDC Tech Group and any advisors, consultants, suppliers, customers and agents to the GDC Tech Group and such other persons who the directors of GDC Tech consider, in their sole discretion, will contribute or have contributed to the GDC Tech Group, share options to subscribe for shares of GDC Tech.

The total number of shares of GDC Tech which may be issued upon exercise of all outstanding share options granted under the GDC Tech Scheme is 24,834,998 which represents approximately 10.68% of the issued share capital of GDC Tech as at the date of this annual report. The maximum number of shares of GDC Tech available for issue upon exercise of all share options which may be granted under the GDC Tech Scheme is 9,023,024, representing approximately 3.88% of the issued share capital of GDC Tech as at the date of this annual report. The total number of shares of GDC Tech issued and to be issued upon the exercise of share options granted under the GDC Tech Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of GDC Tech as at the date of grant. Any further grant of share options in excess of this limit is subject to approval of shareholders of GDC and the Company respectively in general meeting. Share options granted to a director, chief executive, management or substantial shareholder of GDC or the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of GDC and/or the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of GDC or the Company, or to any of their respective associates, in excess of in aggregate 0.1% of the shares of GDC Tech in issue (based on the date of offer) within any 12-month period, are subject to approval of the shareholders of GDC and/or the Company in advance in general meeting.

The period during which a share option may be exercised will be determined by the directors of GDC Tech at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the GDC Tech Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors of GDC Tech are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

Report of the Directors

SHARE OPTION SCHEMES (continued)

(c) Share option scheme of a subsidiary of the Company – GDC Tech (continued)

The exercise price in relation to each share option will be determined by the directors of GDC Tech at their absolute discretion and shall not be less than the nominal value of a share of GDC Tech and shall be subject to the approval of the board of directors of GDC or any committee duly constituted thereof. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the GDC Tech Scheme. The offer of a grant of share options must be accepted within 30 days from the date of the offer.

No share option was cancelled in accordance with the terms of the GDC Tech Scheme during the year. Details of movements in the share options under the GDC Tech Scheme during the year were as follows:

	Options to subscribe for shares of GDC Tech							
Category or name of grantees	At the beginning of the year	Granted during the year[1]	Exercised during the year	Lapsed during the year	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company								
Cao Zhong	4,266,667[2]	–	(4,266,667)	–	–	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
	–	1,650,000	–	–	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
	4,266,667	1,650,000	(4,266,667)	–	1,650,000			
Chen Zheng	4,266,667[2]	–	(4,266,667)	–	–	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
	–	1,650,000	–	–	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
	4,266,667	1,650,000	(4,266,667)	–	1,650,000			
Leung Shun Sang, Tony	3,333[2]	–	–	–	3,333	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
	–	1,650,000	–	–	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
	3,333	1,650,000	–	–	1,653,333			
	8,536,667	4,950,000	(8,533,334)	–	4,953,333			

Report of the Directors

SHARE OPTION SCHEMES (continued)

(c) Share option scheme of a subsidiary of the Company – GDC Tech (continued)

Category or name of grantees	Options to subscribe for shares of GDC Tech: At the beginning of the year	Granted during the year[1]	Exercised during the year	Lapsed during the year	At the end of the year	Date of grant	Exercise period	Exercise price per share
Other individuals with options granted in excess of limit								
Chong Man Nang	7,466,666[2]	–	(7,466,666)	–	–	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
	–	1,650,000	–	–	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
	7,466,666	1,650,000	(7,466,666)	–	1,650,000			
Kwong Che Keung, Gordon	1,706,667[2]	–	(1,706,667)	–	–	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
	–	165,000	–	–	165,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
	1,706,667	165,000	(1,706,667)	–	165,000			
Lu Yi, Gloria	–	12,000,000[3]	–	–	12,000,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
	9,173,333	13,815,000	(9,173,333)	–	13,815,000			
Employees of the Group	1,493,333	–	(320,000)	–	1,173,333	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
	5,313,332	–	–	(750,000)[4]	4,563,332	05.10.2006	05.10.2006 – 04.10.2009	HK$0.145
	6,806,665	–	(320,000)	(750,000)	5,736,665			
Other participants	–	330,000	–	–	330,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.000
	24,516,665	19,095,000	(18,026,667)	(750,000)	24,834,998			

Note:

1. The fair value per option of which at the date of grant was approximately HK$0.83. This fair value was calculated using the Binominal Option Valuation pricing model. The inputs into the model were as follows:

Weighted average share price	HK$2.00
Exercise price	HK$2.00
Expected volatility	51%
Option life	5 years
Risk-free rate	3.34%
Expected dividend yield	NIL

Expected volatility was determined by using the historical volatility of the share price of other companies in the similar industry of GDC Tech over the previous 5 years. The expected life used in the model has been adjusted, based on GDC Tech management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised the total expense of approximately HK$15,914,000 for the year ended 31 December 2007 in relation to share options granted by GDC Tech.

Report of the Directors

SHARE OPTION SCHEMES (continued)

(c) Share option scheme of a subsidiary of the Company – GDC Tech (continued)

2. The number of share options granted to Mr. Cao Zhong, Mr. Chen Zheng, Mr. Leung Shun Sang, Tony, Dr. Chong Man Nang and Mr. Kwong Che Keung, Gordon on 29 September 2006 each exceeded the individual limit of 1% of the shares of GDC Tech then in issue and were approved by the shareholders of GDC and the Company on 19 September 2006 respectively.

3. The number of share options granted to Ms. Lu Yi, Gloria on 2 November 2007 exceeded the individual limit of 1% of the shares of GDC Tech then in issue and were approved by the shareholders of GDC and the Company on 30 October 2007.

4. The share options were held by four grantees who ceased to be employees of the Group during the year and such share options were lapsed on 3 January 2007, 5 May 2007, 11 May 2007 and 10 June 2007 respectively.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

DISTRIBUTION RESERVES

At the balance sheet date, the Company had no reserves available for distribution.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 68% of the revenue for the year and the largest customer included therein amounted to approximately 57%. Purchases from the Group's five largest suppliers accounted for approximately 73% of the cost of sales for the year. Save as disclosed above, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and suppliers.

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The following connected transactions and continuing connected transactions were recorded during the year and up to the date of this annual report:

I. Connected transactions during the year

(a) On 4 April 2007, an agreement (the "Supply Agreement") was entered into between Institute of Digital Media Technology (Shenzhen) Limited ("IDMT Shenzhen") and GDC Tech. Pursuant to the Supply Agreement, IDMT Shenzhen agreed to purchase from GDC Tech 4 units of digital cinema integrated projection system at an aggregate consideration of US$240,000 (approximately HK$1,860,000).

As at the date of the Supply Agreement, IDMT Shenzhen was an indirect non-wholly owned subsidiary of the Company. GDC Tech was also an indirect non-wholly owned subsidiary of the Company, in which Greater Appeal Investments Limited ("Greater Appeal") was interested as to approximately 32.49% in its issued share capital. Greater Appeal was ultimately beneficially wholly-owned by Mr. Li Ka-shing who through his associates held approximately 11.70% shareholding interest in the Company. As such, GDC Tech was a connected person under the Listing Rules. The purchase was for the purpose of developing the digital cinema business of IDMT Shenzhen pursuant to the co-operation with China Film Group Corporation ("China Film Group") as announced by GDC on 31 October 2006. As the total contract sum for the Supply Agreement for each of the percentage ratios (other than the profit ratio) was more than 2.5% but was less than 25% and HK$10 million, the Supply Agreement was only subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules.

(b) On 14 August 2007, an agreement ("Jeckman Agreement") was entered into between Shougang Holding and Grand Phoenix Limited ("Grand Phoenix"), an indirect wholly-owned subsidiary of the Company. Pursuant to the Jeckman Agreement, Grand Phoenix conditionally agreed to acquire 50% interest in the issued share capital of Jeckman Holdings Limited ("Jeckman Holdings") and to accept an assignment of a loan from Shougang Holding for an aggregate consideration of HK$52 million, payable at completion. The sole asset of Jeckman Holdings was its 60% equity interest in South China International Leasing Company Limited ("South China Leasing"), which was principally engaged in the financial leasing business, including the leasing of machinery equipment, electrical equipment, meters, motor vehicles and the leasing of immovable properties in the People's Republic of China ("PRC").

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (continued)

I. Connected transactions during the year (continued)

As at the date of the Jeckman Agreement, Shougang Holding held an approximately 40.45% interest in the Company. As such, Shougang Holding was a connected person under the Listing Rules. At completion of the said acquisition, Jeckman Holdings became a wholly-owned subsidiary of the Company and South China Leasing became an indirect 80% owned subsidiary of the Company. It would enable the Group to increase its participation in the PRC financial leasing market, which would be beneficial to the Group. The Jeckman Agreement was approved by the independent shareholders on 30 October 2007 and the acquisition was completed on 2 November 2007.

(c) On 14 August 2007, an agreement (the "Agreement") was entered into between Shougang Holding and GDC Holdings Limited ("GDC Holdings"), a wholly-owned subsidiary of GDC. Pursuant to the Agreement, GDC Holdings agreed to acquire 100% interest in the issued share capital of Shougang GDC Media Holding Limited ("Shougang GDC Media") from Shougang Holding for a consideration of HK$42 million, payable as to HK$41.5 million as deposit within one month from the date of the Agreement and as to HK$0.5 million at completion. The sole asset of Shougang GDC Media was its 49% interest in中影首鋼環球數碼數字影院建設（北京）有限公司("PRC Media JV"), which was principally engaged in the deployment of digital cinema network and related businesses in the PRC. Shougang Holding undertook that the deposit would be injected into Shougang GDC Media as interest-free shareholders' loan, which would be assigned to GDC Holdings at completion at nil consideration.

As at the date of the Agreement, Shougang Holding held an approximately 40.45% interest in the Company, which in turn, held approximately 50.76% interest in GDC. As such, Shougang Holding was a connected person under the Listing Rules. At completion of the said acquisition, Shougang GDC Media became a wholly-owned subsidiary of GDC and PRC Media JV became an indirect 49% owned associate of GDC. It would enable GDC to take a further step to participate in the deployment of digital cinema business in the PRC by participating in the operation of PRC Media JV. The Agreement was approved by the independent shareholders on 30 October 2007 and the acquisition was completed on 2 November 2007.

(d) On 14 August 2007, a subscription agreement (the "Subscription Agreement") was entered into between GDC Holdings and GDC Tech. Pursuant to the Subscription Agreement, GDC Tech agreed to issue and allot to GDC Holdings, and GDC Holdings agreed to subscribe for, 53,388,178 new shares in the share capital of GDC Tech at HK$2.00 per share for an aggregate consideration of approximately HK$106.78 million.

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (continued)

I. Connected transactions during the year (continued)

As at the date of the Subscription Agreement, GDC Holdings was an indirect non-wholly owned subsidiary of the Company. GDC Tech was also an indirect non-wholly owned subsidiary of the Company, in which Greater Appeal was interested as to approximately 31.60% in its issued share capital. Greater Appeal was ultimately beneficially wholly-owned by Mr. Li Ka-shing who through his associates held approximately 11.58% shareholding interest in the Company. As such, GDC Tech was a connected person of the Company under the Listing Rules. At completion of the Subscription Agreement, GDC Holdings held approximately 62.39% of the issued share capital of GDC Tech. It would be in the interest of GDC Tech to secure additional funding, by entering into the Subscription Agreement, to expedite the rolling out of GDC Tech's worldwide business plan, including the potential sale of 2,000 units of digital cinema integrated projection system and related services for digital cinema network in the PRC under the co-operation between China Film Group and the GDC Group. The net proceeds of approximately HK$106.78 million of the Subscription Agreement would be utilized for business expansion of GDC Tech worldwide and for enhancement of research and development activities of GDC Tech. The Subscription Agreement was approved by the independent shareholders on 30 October 2007 and the subscription was completed on 2 November 2007.

II. Continuing connected transactions during the year

(a) As stated in the announcement of the Company dated 3 January 2007, the following tenancy agreements were renewed:

(i) a tenancy agreement dated 2 January 2007 whereby a portion of the 6th Floor of Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,412 square feet was leased by Winluck Properties Limited, an indirect wholly-owned subsidiary of Shougang Holding which in turn was a substantial shareholder of the Company, to Long Cosmos Investment Limited, an indirect wholly-owned subsidiary of the Company, for a term of three years commenced on 1 January 2007 at a monthly rental of HK$134,600 (exclusive of rates and other charges payable to independent third parties). This office premises was used by the Group as office; and

(ii) a tenancy agreement dated 3 January 2007 whereby Flat 1612, Block Q, Kornhill, Quarry Bay, Hong Kong with an aggregate gross floor area of approximately 756 square feet was leased by Linksky Limited, an indirect wholly-owned subsidiary of the Company, to Gold Regal Limited, a direct wholly-owned subsidiary of Shougang Concord Century Holdings Limited ("Shougang Century") which is an associate of Shougang Holding, for a term of three years commenced on 1 January 2007 at a monthly rental of HK$11,800 (exclusive of rates and other charges payable to independent third parties). This residential premises was used by the senior executive of Shougang Century as quarter.

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (continued)

II. Continuing connected transactions during the year (continued)

(b) As stated in the announcement of the Company dated 12 April 2007, a master supply agreement (the "Master Supply Agreement") was entered into between the Company and GDC Tech on 11 April 2007. Pursuant to the Master Supply Agreement, GDC Tech agreed to supply the Company and/or its associates with digital cinema equipment and network management and other related equipment and services. The annual cap amounts of the transactions contemplated under the Master Supply Agreement for each of the period ended 31 December 2007 and the two financial years ending 31 December 2009 would not exceed US$103,000,000, US$104,500,000 and US$106,000,000, respectively. The purchases were for the purpose of developing the digital cinema business of IDMT Shenzhen pursuant to the co-operation with China Film Group. The Master Supply Agreement and the relevant cap amounts were approved by the independent shareholders of the Company and GDC on 6 June 2007, respectively.

The continuing connected transactions as set out in (b) above which took place during the year have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that:

(1) the transactions were entered into in the ordinary and usual course of business of the relevant members of the Group;

(2) the transactions were conducted on normal commercial terms, or if there is no available comparison, on terms that are no less favourable than terms available to or from (as the case may be) independent third parties; and

(3) the transactions were entered into in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

As far as the transactions set out in note 49 to the consolidated financial statements under the heading of "Related Party Transactions" are concerned, the transactions as set out in notes (a)(i) and (a)(ii) were connected transactions which have been previously disclosed by way of announcements by the Company. The transactions as set out in notes (a)(iii) to (a)(vii) and (b) were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules. The remaining transactions which took place during the year as set out under the heading of "Related Party Transactions" did not constitute connected transactions under the Listing Rules.

Report of the Directors

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 27 to 40 of this annual report.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By Order of the Board
Cao Zhong
Vice Chairman and Managing Director

Hong Kong, 16 April 2008

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF SHOUGANG CONCORD GRAND (GROUP) LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Shougang Concord Grand (Group) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 67 to 162, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

Independent Auditor's Report

entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Revenue	7	284,303	90,629
Cost of sales		(193,371)	(53,670)
Gross profit		90,932	36,959
Other income	9	23,369	9,732
Distribution costs and selling expenses		(5,553)	(6,932)
Administrative expenses		(156,036)	(83,474)
Increase in fair value of investment properties		31,130	8,500
Changes in fair value of held-for-trading investments		23,713	3,308
Finance costs	10	(4,873)	(10,132)
Share of result of a jointly controlled entity		–	1,531
Share of results of associates		7,255	(1,073)
Discount on acquisition of additional interest in a subsidiary	43(c)	1,342	–
Gain on disposal and dilution of interests in subsidiaries	11	375,680	–
Gain on disposal of interest in a jointly controlled entity	12	61,039	–
Gain on disposal of partial interests in subsidiaries	13	–	26,506
Profit (loss) before tax		447,998	(15,075)
Income tax expense	14	(6,785)	(1,103)
Profit (loss) for the year	15	441,213	(16,178)
Attributable to:			
Equity holders of the Company		425,661	(15,204)
Minority interests		15,552	(974)
		441,213	(16,178)
Earnings (loss) per share	17		
Basic		HK37.19 cents	(HK1.34 cents)
Diluted		HK35.99 cents	N/A

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	18	47,634	7,792
Prepaid lease payments	19	7,230	1,650
Investment properties	20	141,160	136,098
Goodwill	21	63,332	–
Intangible asset	23	221,545	–
Interests in associates	24	424	15,108
Advance to an associate	25(b)	–	57,704
Advance paid for acquisition of an intangible asset		35,581	–
Finance lease receivables	26	1,029,469	–
Restricted bank deposits	31	72,482	–
		1,618,857	218,352
Current assets			
Inventories	27	25,781	10,801
Production work in progress	28	11,094	11,727
Amounts due from customers for contract work	29	1,494	808
Finance lease receivables	26	344,404	–
Trade receivables	30	19,043	10,072
Prepayments, deposits and other receivables	31	42,259	7,050
Prepaid lease payments	19	147	32
Amounts due from associates	25(c)	1,053	28,168
Held-for-trading investments	32	29,846	8,946
Pledged bank deposits	31	8,852	1,014
Bank balances and cash	31	463,561	34,705
		947,534	113,323
Interest in a jointly controlled entity held for sale	33	–	125,489
		947,534	238,812
Current liabilities			
Amounts due to customers for contract work	29	1,440	1,850
Trade payables	34	5,146	3,844
Other payables and accruals		44,848	50,073
Income received in advance	35	23,361	12,549
Rental and management fee deposits received		1,044	1,015
Amounts due to related parties	36	455	1,776
Amount due to a shareholder	37	–	512
Amount due to an associate	25(c)	–	19
Tax liabilities		8,291	2,266
Borrowings	38	362,267	53,818
Obligations under finance leases	39	–	1,484
		446,852	129,206
Net current assets		500,682	109,606
Total assets less current liabilities		2,119,539	327,958

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current liabilities			
Income received in advance	35	21,245	–
Amount due to a former shareholder of a subsidiary	36	–	455
Amount due to a fellow subsidiary	37	–	40,000
Borrowings	38	1,055,103	64,065
Obligations under finance leases	39	–	489
Security deposits received		73,495	–
Deferred tax liabilities	40	1,340	1,386
		1,151,183	106,395
Net assets		968,356	221,563
Capital and reserves			
Share capital	41	11,504	11,369
Reserves		624,310	200,641
Equity attributable to equity holders of the Company		635,814	212,010
Share options reserve of subsidiaries		55,249	5,907
Minority interests		277,293	3,646
Total equity		968,356	221,563

The consolidated financial statements on pages 67 to 162 were approved and authorised for issue by the Board of Directors on 16 April 2008 and are signed on its behalf by:

Cao Zhong
Director

Chen Zheng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital HK$'000	Share premium HK$'000	Capital contribution reserve HK$'000	Contributed surplus HK$'000 (Note (a))	Translation reserve HK$'000	Share options reserve HK$'000	Special reserve HK$'000 (Note (b))	Accumulated (losses) profits HK$'000	Put option reserve HK$'000 (Note (c))	Total HK$'000	Share options reserve of subsidiaries HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	11,369	417,690	445	2,135	6,312	–	–	(227,408)	(6,148)	204,395	–	4,008	208,403
Exchange differences on translation of a jointly controlled entity/subsidiaries representing income recognised directly in equity	–	–	–	–	10,057	–	–	–	–	10,057	–	113	10,170
Loss for the year	–	–	–	–	–	–	–	(15,204)	–	(15,204)	–	(974)	(16,178)
Total recognised income and expenses for the year	–	–	–	–	10,057	–	–	(15,204)	–	(5,147)	–	(861)	(6,008)
Recognition of share-based payments	–	–	–	–	–	–	–	–	–	–	5,937	–	5,937
Derecognition of put option liability	–	–	–	–	–	–	–	6,612	6,148	12,760	–	–	12,760
Exercise of share options of subsidiaries	–	–	–	–	–	–	–	–	–	–	(28)	–	(28)
Transfer upon cancellation of share options	–	–	–	–	–	–	–	2	–	2	(2)	–	–
Additional contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	499	499
At 31 December 2006	11,369	417,690	445	2,135	16,369	–	–	(235,998)	–	212,010	5,907	3,646	221,563
Exchange differences on translation of associates/subsidiaries representing income recognised directly in equity	–	–	–	–	12,502	–	–	–	–	12,502	–	3,968	16,470
Profit for the year	–	–	–	–	–	–	–	425,661	–	425,661	–	15,552	441,213
Release of translation reserve upon disposal of interest in a jointly controlled entity	–	–	–	–	(12,352)	–	–	–	–	(12,352)	–	–	(12,352)
Release of translation reserve upon disposal of interests in subsidiaries	–	–	–	–	983	–	–	–	–	983	–	–	983
Total recognised income for the year	–	–	–	–	1,133	–	–	425,661	–	426,794	–	19,520	446,314
Recognition of share-based payments	–	–	–	–	–	14,949	–	–	–	14,949	57,402	–	72,351
Exercise of share options	135	7,569	–	–	–	(2,155)	–	–	–	5,549	–	–	5,549
Exercise of share options of subsidiaries	–	–	–	–	–	–	–	–	–	–	(8,052)	33,986	25,934
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	27,608	27,608
Transfer upon cancellation of share options	–	–	–	–	–	–	–	8	–	8	(8)	–	–
Additional contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	427,224	427,224
Dilution of interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(268,781)	(268,781)
Partial disposal of interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	1,539	1,539
Additional investments in subsidiaries shared by minority shareholders of subsidiaries	–	–	–	–	–	–	(23,496)	–	–	(23,496)	–	32,551	9,055
At 31 December 2007	11,504	425,259	445	2,135	17,502	12,794	(23,496)	189,671	–	635,814	55,249	277,293	968,356

Notes:

(a) The contributed surplus represented the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1991 over the nominal value of the Company's shares issued in exchange.

(b) Special reserve represents the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in a subsidiary being acquired from minority shareholders during the year ended 31 December 2007. (see note 43(c)).

(c) The put option reserve related to the recognition of the obligation to settle a put option given by the Group to minority shareholders during the year ended 31 December 2005, net of option premium. Such put option liability was subsequently reversed during the year ended 31 December 2006 and the option premium of approximately HK$6,612,000 was transferred to accumulated losses during that year.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit (loss) before tax	447,998	(15,075)
Adjustments for:		
Share-based payment expenses	72,351	5,937
Finance costs	4,873	10,132
Research and development costs	4,432	2,422
Depreciation of property, plant and equipment	2,433	4,705
Allowance for bad and doubtful debts	230	1,660
Loss (gain) on disposal of property, plant and equipment	119	(453)
Amortisation of prepaid lease payments	99	80
Allowance for finance lease receivables	–	4,649
Write-down of inventories	–	1,077
Amortisation of intangible asset	–	428
Gain on disposal and dilution of interests in subsidiaries	(375,680)	–
Gain on disposal of interest in a jointly controlled entity	(61,039)	–
Increase in fair value of investment properties	(31,130)	(8,500)
Changes in fair value of held-for-trading investments	(23,713)	(3,308)
Interest income	(14,084)	(2,252)
Share of results of associates	(7,255)	1,073
Discount on acquisition of additional interest in a subsidiary	(1,342)	–
Dividend income from equity investments	(144)	–
Dividend income from an associate held for sale	–	(5,490)
Share of result of a jointly controlled entity	–	(1,531)
Gain on disposal of partial interests in subsidiaries	–	(26,506)
Increase in fair value of prepaid lease payments	–	(146)
Operating cash flows before movements in working capital	18,148	(31,098)
Increase in inventories	(14,330)	(4,056)
Decrease (increase) in production work in progress	1,443	(3,611)
Decrease (increase) in amounts due from customers for contract work	168	(808)
Decrease (increase) in finance lease receivables	34,631	(772,164)
Increase in trade receivables	(141,615)	(4,643)
(Increase) decrease in prepayments, deposits and other receivables	(8,301)	9,364
Decrease in held-for-trading investments	8,567	1,140
Increase in amounts due to customers for contract work	227	1,850
Increase (decrease) in trade payables	1,302	(580)
Decrease in other payables and accruals	(18,528)	(13,076)
Increase in income received in advance	3,334	13,758
Increase in rental and management fee deposits received	29	164
Increase in security deposits received	1,604	29,138
Cash used in operations	(113,321)	(774,622)
Hong Kong Profits Tax paid	(806)	(168)
Tax refunded	–	79
Interest paid	(4,721)	(9,717)
NET CASH USED IN OPERATING ACTIVITIES	(118,848)	(784,428)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Proceeds from disposal of interest in a jointly controlled entity		174,176	–
Proceeds from disposal of partial interest in a subsidiary (net of expense)		68,308	1,767
Acquisition of subsidiaries	43(a)&(d)	42,447	(1,395)
Interest received		14,084	2,252
Dividend received from equity investments		144	–
Proceeds from disposal of property, plant and equipment		20	453
Acquisition of an intangible asset		(88,633)	–
Advance paid for acquisition of an intangible asset		(35,581)	–
Capital contribution to associates		(17,503)	(10,000)
Purchases of property, plant and equipment		(15,132)	(3,999)
Repayment from (advance to) associates		16,190	(25,110)
(Increase) decrease in pledged bank deposits		(7,838)	15,441
Prepaid lease payments made		(5,794)	–
Expenditure on product development		(4,432)	(2,422)
Proceeds from disposal of an associate held for sale		–	28,816
Dividend received from an associate held for sale		–	5,490
Dividend received from a jointly controlled entity		–	3,898
Disposal of interest in a subsidiary	13	–	(19,016)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		140,456	(3,825)
FINANCING ACTIVITIES			
Proceeds from issue of shares by subsidiaries to minority shareholders, net of transaction costs of approximately HK$13,075,000		467,519	–
Proceeds from exercise of share options of subsidiaries		25,769	–
New borrowings raised		13,898	877,524
Issue of shares from exercise of share options		5,549	–
Capital contribution from minority shareholders		–	499
Repayment of borrowings		(71,678)	(83,567)
(Repayment to) advance from a fellow subsidiary		(40,000)	15,740
Repayment of obligations under finance leases		(1,973)	(3,078)
Repayment to related parties		(1,928)	(362)
Repayment to a shareholder		(512)	(1,642)
NET CASH FROM FINANCING ACTIVITIES		396,644	805,114
NET INCREASE IN CASH AND CASH EQUIVALENTS		418,252	16,861
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		34,705	17,591
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		10,604	253
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		463,561	34,705

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1. GENERAL

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its controlling shareholder is Shougang Holding (Hong Kong) Limited ("Shougang Holding"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 50.

The functional currency of the Company is United States dollars. The consolidated financial statements are presented in Hong Kong dollars for the convenience of the reader.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7, retrospectively. Certain information presented in the prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) – Int 12	Service Concession Arrangements[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company (the "Directors") anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

When a business combination involves more than one exchange transaction, each exchange transaction shall be treated separately by the acquirer, using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. Any adjustment to those fair values relating to previously held interests of the Group is credited to the revaluation reserve.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Acquisition of additional interest in a subsidiary

Goodwill arising on acquisition of additional interest in a subsidiary represents the excess of the cost of the acquisition over the fair value of the net assets attributable to the additional interest in a subsidiary. If, after reassessment, the fair value of the net assets attributable to the additional interest in a subsidiary by the Group exceeds the cost of the acquisition, the excess is recognised immediately in the consolidated income statement. The difference between the fair value and the carrying value of the underlying assets and liabilities attributable to the additional interest in a subsidiary is debited directly to special reserve. This special reserve is recognised in the consolidated income statement upon the earlier of the disposal of the subsidiary or the disposal by the subsidiary of the assets to which it relates.

Goodwill

Goodwill arising on an acquisition of a subsidiary, for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary, at the date of acquisition.

For previously capitalised goodwill arising on acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is 1 January 2005, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit ("CGU") to which the goodwill relates may be impaired.

Goodwill arising on an acquisition of a business, which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business, at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant CGU, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

An associate is an entity over which the investor has significant influence and there is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

On subsequent disposal of an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

Jointly controlled entity

The results and assets and liabilities of a jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"). Under the equity method, investment in a jointly controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entity (continued)

Jointly controlled entity (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

On subsequent disposal of a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the profit or loss on disposal.

Interest in a jointly controlled entity held for sale

Interest in a jointly controlled entity is classified as held for sale if its carrying amount will be recovered principally through a sale transaction. This condition is regarded as met only when the sale is highly probable and the interest in a jointly controlled entity is available for immediate sale.

Interest in a jointly controlled entity held for sale is measured at the lower of the carrying amount of the interest in a jointly controlled entity at the date the held for sale conditions are satisfied and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods sold and services provided in the ordinary course of business, net of returns, discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from the finance leasing business and other financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the finance lease business and other financial assets to that asset's net carrying amount.

Distribution income for films and television programme is recognised when the films and/or television programme are delivered to the customers.

Training fee income is recognised over the period of the training course on a straight-line basis. Unearned training fee income received is recorded as income received in advance.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Service income and management fee income are recognised when services are provided.

Rental income from property and equipment leasing and handling fee income is recognised on a straight-line basis over the relevant lease terms.

Receipts from distribution of motion pictures are recognised when the motion pictures are exhibited.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Subcontracting revenue from computer graphic ("CG") creation and production

Where the outcome of a subcontracting contract of CG creation and production can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Where the outcome of a subcontracting contract cannot be estimated reliably, subcontracting revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract cost will exceed total subcontracting revenue, the expected cost is recognised as expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the excess is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the excess is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as income received in advance. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in fair value of investment property are included in the consolidated income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

An investment property is transferred at fair value to property, plant and equipment when the property begins to be occupied by the owner. Gain or loss arising from change in fair value of the investment property upon the transfer is included in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

An owner-occupied property is transferred from property, plant and equipment to investment property at fair value when it is evidenced by the end of owner-occupation. The difference between the carrying amount and fair value at the date of transfer is accounted for as a revaluation increase in accordance with HKAS 16 "Property, Plant and Equipment". On the subsequent sale or retirement of assets, the relevant revaluation reserve will be transferred directly to accumulated profits.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to consolidated income statement.

Rentals payable under operating leases are charged to consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases except for those which are classified and accounted as investment properties under the fair value model.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in consolidated income statement for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation cease or is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

All borrowing costs are recognised as and included in finance cost in the consolidated income statement in the year in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

Payments to the define contribution retirement benefit schemes are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such asset and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in the business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised. (see the accounting policy in respect of impairment losses on tangible and intangible assets other than goodwill below).

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Production work in progress

Production work in progress is stated at the lower of cost and net realisable value. Costs include all direct costs associated with the production of films or television programme. The cost associated with the production of films and programme would be transferred to inventories upon the completion of films or television programme.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in the consolidated income statement.

Financial assets

The Group's financial assets are classified into one of the two categories: including held-for-trading investments and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method (continued)

Held-for-trading investments

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, held-for-trading investments are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise. The net gain or loss recognised in consolidated income statement excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including advance to an associate, trade receivables, other receivables, amounts due from associates, restricted bank deposits, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than held-for-trading investments, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For those loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost (i.e. loans and receivables), an impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivable and finance lease receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in consolidated income statement. When a trade receivable or finance lease receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade payables, other payables, amount due to a shareholder, amount due to an associate, amounts due to related parties and borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity settled share-based payment transactions

Share options granted to the Directors and employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed immediately to the consolidated income statement.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits (losses).

For share options granted on or before 7 November 2002 and share options granted after 7 November 2002 but vested before 1 January 2006, the Group did not recognise any financial effect of these share options in accordance with the transitional provisions of HKFRS 2.

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of goodwill is approximately HK$63,332,000 (2006: Nil). Details of the recoverable amount calculation are disclosed in note 22. For share of box office receipts, it is used as the basis for estimation of present value of box office receipts in 10 years in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan).

During the year ended 31 December 2007, the Directors did not identify any impairment loss on goodwill.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Estimated impairment of intangible asset

At 31 December 2007, the carrying amount of intangible asset was approximately HK$221,545,000 (2006: Nil). In determining whether there is objective evidence of impairment loss, the Directors take into consideration the estimation of future cash flows to be generated from use of the intangible asset. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at a suitable discount rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

During the year ended 31 December 2007, the Directors did not identify any impairment loss on the intangible asset.

Provision for litigation

The management of the Group monitor any litigation against the Group closely. Provision for the litigation is made based on the opinion of the legal adviser on the possible outcome and liability of the Group. As at 31 December 2007, there is no foreseeable financial impact to the Group and no provision for litigation has been made. Details are set out in note 45.

Write-down of production work in progress

The policy for write-down for production work in progress of the Group is based on the evaluation of the certainty in finalising the distribution/license agreements in the potential markets and on management's judgement. Where the net realisable value is less than the cost, a material impairment loss may arise. The management estimates the net realisable value for such production work in progress was approximately HK$11,094,000 as at 31 December 2007 (2006: HK$11,727,000). There was no write-down of production work in progress made for the year ended 31 December 2007 (2006: HK$1,077,000).

Estimated impairment of finance lease receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of finance lease receivables is approximately HK$1,373,873,000 (net of allowance for doubtful debts of approximately HK$6,609,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

5. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2007 HK$'000	2006 HK$'000
Financial assets		
Loan and receivables (including cash and cash equivalents)	598,602	136,118
Fair value through profit or loss		
Held-for-trading investments	29,846	8,946
Financial liabilities		
Amortised cost	1,519,371	178,504

b. Financial risk management objectives and polices

The Group's major financial instruments include finance lease receivables, trade receivables, other receivables, restricted bank deposits, pledged bank deposits and bank balances, amounts due from associates, borrowings, trade payables, other payables and obligations under finance leases. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The normal operations and investments of the Group are mainly in Hong Kong and the PRC, with revenue and expenditure denominated in Hong Kong dollars, Renminbi and United States dollars which are primarily transacted using functional currencies of the respective group entities. The Directors believe that the Group does not have significant foreign exchange exposures. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

5. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and polices (continued)

Market risk (continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate finance lease receivables and borrowings (see note 38 for details of the borrowings).

The Group is exposed to cash flow interest rate risk in relation to variable-rate finance lease receivables, bank deposits and bank borrowings (see note 38 for details of the borrowings). It is the Group's policy to keep majority of its finance lease receivables and borrowings at floating rates of interest so as to minimise the fair value interest rate risk.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the People's Bank of China Renminbi Lending Rate ("PBC Rate") arising from the Group's variable-rate finance lease receivables and borrowings. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate finance lease receivables, borrowings and bank deposits, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by approximately HK$3,894,000 (2006: HK$331,000).

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate finance lease receivables and borrowings.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments operating in the PRC quoted in the Stock Exchange. In addition, the Group has appointed a team to monitor the price risk and will consider hedging the risk exposure should the need arise.

5. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and polices (continued)

Market risk (continued)

(iii) ***Other price risk*** (continued)

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower, profit for the year ended 31 December 2007 would increase/decrease by approximately HK$1,492,000 (2006: HK$447,000) as a result of the changes in fair value of held-for-trading investments.

The Group's sensitivity to held-for-trading investments has increased from the prior year.

Credit risk

As at 31 December 2007 and 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Before accepting any new finance lease borrower, the Group assesses the credit quality of each potential finance lease borrower and defined credit rating and limits for each finance lease borrower. In addition, the Group has reviewed the repayment history of finance lease payments by each finance lease borrower with reference to the repayment schedule from the date of finance lease was initially granted up to the reporting date to determine the recoverability of a finance lease receivable.

The credit risk on restricted bank deposits, pledged bank deposits and bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in the United States, which accounted for 33% (2006: 12%) of the total trade receivables as at 31 December 2007 and in the PRC, which accounted for 100% (2006: Nil) of the total financial lease receivables as at 31 December 2007.

The Group has concentration of credit risk as 24% (2006: 12%) and 58% (2006: 46%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

The Group also has concentration of credit risk from finance leasing business as 31% (2006: Nil) and 79% (2006: Nil) of the total finance lease receivables was due from the Group's largest finance lease borrower and the five largest finance lease borrowers, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

5. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and polices (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings from time to time.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity table

	Weighted average effective interest rate %	Less than three months HK$'000	Three to six months HK$'000	Six months to one year HK$'000	Over one year HK$'000	Total undiscounted cashflows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007							
Trade payables	–	4,802	344	–	–	5,146	5,146
Other payables	–	22,905	–	–	–	22,905	22,905
Amount due to a related party	–	455	–	–	–	455	455
Security deposits received	–	–	–	749	72,746	73,495	73,495
Borrowings	7	96,385	87,917	195,378	1,271,102	1,650,782	1,417,370
		124,547	88,261	196,127	1,343,848	1,752,783	1,519,371

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

5. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and polices (continued)

Liquidity risk (continued)

Liquidity table (continued)

	Weighted average effective interest rate	Less than three months	Three to six months	Six months to one year	Over one year	Total undiscounted cash flows	Carrying amount at 31.12.2006
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006							
Trade payables	–	3,694	150	–	–	3,844	3,844
Other payables	–	12,042	–	–	–	12,042	12,042
Amounts due to related parties	–	1,776	–	–	–	1,776	1,776
Amount due to a shareholder	–	512	–	–	–	512	512
Amount due to an associate	–	19	–	–	–	19	19
Borrowings	7	54,760	–	–	77,484	132,244	117,883
Obligations under finance leases	9	195	592	836	448	2,071	1,973
Amount due to a former shareholder of a subsidiary	–	–	–	–	455	455	455
Amount due to a fellow subsidiary	–	–	–	–	40,000	40,000	40,000
		72,998	742	836	118,387	192,963	178,504

c. Fair value

The fair value of financial assets and financial liabilities is determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using market rates from the observable current market transactions as input.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their corresponding fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. CAPITAL RISK MANAGEMENT

The Group's objectives to manage its capital are to ensure that entities of the Group will be able to continue as a going concern while maximising the return to shareholders, to support the Group's stability and growth, and to strengthening the Group's financial management capability. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of net debt, which includes amount due to a fellow subsidiary, borrowings and obligations under finance leases disclosed in notes 37, 38 and 39, respectively, and restricted bank deposits, pledged bank deposits, bank balances and cash and total equity.

The Directors review the capital structure regularly and manage its capital structure to ensure an optimal capital structure and shareholders' returns, taking into consideration the future capital requirements of the Group, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Directors monitor capital mainly using net debt to total equity ratio and current ratio. These ratios as at 31 December 2007 were as follows:

	2007 *HK$'000*	2006 *HK$'000*
Net debt (1)	**872,475**	124,137
Total equity (2)	**968,356**	221,563
Net debt to total equity ratio (%)	**90**	56
Current assets	**947,534**	238,812
Current liabilities	**446,852**	129,206
Current ratio (%)	**212**	185

The Directors considered that the Group maintained healthy capital as at 31 December 2007 as the Group had excess of current assets over current liabilities. The net debt to total equity ratio was at a relative high level was mainly due to inclusion of the finance leasing business as at 31 December 2007.

Notes:

(1) Net debt equals the sum of amount due to a fellow subsidiary, borrowings, obligations under finance leases and less restricted bank deposits, pledged bank deposits and bank balances and cash.

(2) Total equity equals to all capital and reserves of the Group.

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For the year ended 31 December 2007

7. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers (less returns and trade discounts), CG creation and films and television programme production income, finance lease income, revenue arising on training fee, property leasing and management fee income, technical service income, rental income from equipment leasing, and receipts from distribution of motion picture during the year.

An analysis of the Group's revenue is as follows:

	2007 HK$'000	2006 HK$'000
Sale of goods	180,715	12,845
CG creation and production income	51,300	27,425
Finance lease income	16,771	13,638
Films and television programme distribution income	13,839	14,962
Training fee	10,963	9,093
Property leasing and management fee income	7,568	7,109
Technical service income	3,131	2,245
Rental income from equipment leasing	16	383
Receipts from distribution of motion pictures	–	2,929
	284,303	90,629

Included in revenue for the year ended 31 December 2007 is an amount of HK$132,912,000 (2006: Nil) in respect of goods sold in exchange for an intangible asset.

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For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is organised into five operating divisions – property leasing and building management services, digital content distribution and exhibitions, CG creation and films and television programme production, CG training courses and finance leasing. These divisions are the basis on which the Group reports its primary segment information.

As explained in note 13, the Group was involved in the financial leasing business during the year ended 31 December 2006 which was presented as discontinued operation in prior year's consolidated financial statements.

Further as explained in note 43(a), the Group acquired and considered finance leasing as a separate business segment subsequent to the acquisition. Accordingly, the comparative figures of the finance leasing division which were presented as discontinued operation in prior year have been re-presented as continuing operation.

Segment information about these divisions is presented below:

For the year ended 31 December 2007

	Property leasing and building management services HK$'000	Digital content distribution and exhibitions HK$'000	CG creation and films and television programme production HK$'000	CG training courses HK$'000	Finance leasing HK$'000	Consolidated HK$'000
REVENUE	7,568	183,862	65,139	10,963	16,771	284,303
RESULT	37,464	4,522	15,967	1,987	488	60,428
Unallocated corporate income						41,068
Unallocated corporate expenses						(93,941)
Finance costs						(4,873)
Share of results of associates						7,255
Discount on acquisition of additional interest in a subsidiary						1,342
Gain on disposal and dilution of interests in subsidiaries						375,680
Gain on disposal of interest in a jointly controlled entity						61,039
Profit before tax						447,998
Income tax expense						(6,785)
Profit for the year						441,213

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For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

At 31 December 2007

	Property leasing and building management services *HK$'000*	Digital content distribution and exhibitions *HK$'000*	CG creation and films and television programme production *HK$'000*	CG training courses *HK$'000*	Finance leasing *HK$'000*	Consolidated *HK$'000*
BALANCE SHEET						
Assets						
Segment assets	149,229	259,886	80,791	6,296	1,554,963	2,051,165
Interests in associates						424
Amount due from an associate						1,053
Held-for-trading investments						29,846
Unallocated corporate assets						483,903
Consolidated total assets						2,566,391
Liabilities						
Segment liabilities	1,574	24,678	27,841	6,405	1,443,897	1,504,395
Borrowings						78,822
Unallocated corporate liabilities						14,818
Consolidated total liabilities						1,598,035

For the year ended 31 December 2007

	Property leasing and building management services *HK$'000*	Digital content distribution and exhibitions *HK$'000*	CG creation and films and television programme production *HK$'000*	CG training courses *HK$'000*	Finance leasing *HK$'000*	Corporate *HK$'000*	Consolidated *HK$'000*
OTHER INFORMATION							
Capital additions	1,498	225,121	5,098	2,734	119	2,107	236,677
Depreciation of property, plant and equipment	21	115	2,880	351	102	1,013	4,482
Allowance for bad and doubtful debts	–	–	230	–	–	–	230
Amortisation of prepaid lease payments	–	–	68	–	–	31	99
Share-based payment expenses *(note 47)*	–	15,914	–	–	–	56,437	72,351
(Gain) loss on disposal of property, plant and equipment	–	(20)	–	–	–	139	119

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For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2006

	Property leasing and building management services HK$'000	Digital content distribution and exhibitions HK$'000	CG creation and films and television programme production HK$'000	CG training courses HK$'000	Finance leasing HK$'000	Consolidated HK$'000
REVENUE	7,109	15,473	45,316	9,093	13,638	90,629
RESULT	17,338	(7,224)	(3,218)	116	(4,819)	2,193
Unallocated corporate income						5,557
Unallocated corporate expenses						(39,657)
Finance costs						(10,132)
Share of result of a jointly controlled entity						1,531
Share of results of associates						(1,073)
Gain on disposal of partial interests in subsidiaries						26,506
Loss before tax						(15,075)
Income tax expense						(1,103)
Loss for the year						(16,178)

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8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

At 31 December 2006

	Property leasing and building management services HK$'000	Digital content distribution and exhibitions HK$'000	CG creation and films and television programme production HK$'000	CG training courses HK$'000	Consolidated HK$'000
BALANCE SHEET					
Assets					
Segment assets	131,118	7,065	37,872	1,486	177,541
Interest in a jointly controlled entity held for sale					125,489
Interests in associates					15,108
Advance to an associate					57,704
Amounts due from associates					28,168
Held-for-trading investments					8,946
Unallocated corporate assets					44,208
Consolidated total assets					457,164
Liabilities					
Segment liabilities	11,446	8,413	28,203	4,682	52,744
Borrowing					117,883
Unallocated corporate liabilities					64,974
Consolidated total liabilities					235,601

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8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2006

	Property leasing and building management services HK$'000	Digital content distribution and exhibitions HK$'000	CG creation and films and television programme production HK$'000	CG training courses HK$'000	Finance leasing HK$'000	Corporate HK$'000	Consolidated HK$'000
OTHER INFORMATION							
Capital additions	37	1,018	2,843	101	–	–	3,999
Depreciation of property, plant and equipment	587	382	4,365	855	637	–	6,826
Amortisation of intangible asset	–	–	–	–	428	–	428
Allowance for bad and doubtful debts	–	1,660	–	–	–	–	1,660
Write-down of inventories	–	–	1,077	–	–	–	1,077
Allowance for finance lease receivables	–	–	–	–	4,649	–	4,649
Amortisation of prepaid lease payments	–	–	–	–	–	80	80
Share-based payment expenses	–	347	–	–	–	5,590	5,937

(b) Geographical segments

The Group's five business segments operate in eight main geographical areas, namely the PRC, the United States, Europe, Middle-East, Hong Kong, Singapore, Korea, India and other regions. The head office of the Group is located in Hong Kong. The Group's CG creation and films and television programme production centre, CG training facilities and finance leasing are located in the PRC. For property leasing and building management services, the business is mainly located in Hong Kong.

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For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments (continued)

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services:

	2007 HK$'000	2006 HK$'000
The PRC	173,837	48,138
The United States	68,073	23,833
Europe	12,962	1,990
Middle-East	12,743	–
Hong Kong	11,758	5,837
Singapore	2,573	4,035
Korea	499	2,941
India	598	107
Other regions	1,260	3,748
	284,303	90,629

The following is an analysis of the carrying amount of segment assets, and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
The PRC	1,109,322	83,924	231,317	3,417
Hong Kong	937,315	87,201	4,547	547
The United States	1,986	3,269	177	–
Singapore	2,501	2,142	636	35
Other regions	41	1,005	–	–
Total	2,051,165	177,541	236,677	3,999

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For the year ended 31 December 2007

9. OTHER INCOME

	2007 HK$'000	2006 HK$'000
Interest income from bank deposits	8,502	2,252
Other interest income	5,582	–
Waiver of interest payable on other loan	4,156	–
Waiver of rental payable to a landlord	3,228	–
Dividend income from equity investments	144	–
Dividend income from an associate held for sale	–	5,490
Gain on disposal of property, plant and equipment	–	453
Others	1,757	1,537
	23,369	9,732

10. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on bank and other borrowings wholly repayable within five years	4,858	9,990
Other finance costs	15	142
	4,873	10,132

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For the year ended 31 December 2007

11. GAIN ON DISPOSAL AND DILUTION OF INTERESTS IN SUBSIDIARIES

The gain on disposal and dilution of interests in subsidiaries for the year ended 31 December 2007 of approximately HK$375,680,000 (2006: Nil) resulted from the following transactions:

(i) During the year, Global Digital Creations Holdings Limited ("GDC"), a subsidiary of the Company with its shares listed on the Growth Enterprise Market of the Stock Exchange, issued in aggregate 378,000,000 new shares through one subscription and three top-up placing and subscriptions ("the GDC Top-up Placing Transactions"). In addition, the Group's interest in GDC has been diluted upon exercise of GDC's share options with the issue of approximately 62,426,000 new shares of GDC ("the GDC Dilution"), and the Group also disposed of approximately 44,106,000 shares of GDC ("the GDC Disposal Transaction") during the year. An aggregate gain on the GDC Top-up Placing Transactions, the GDC Dilution and the GDC Disposal Transaction of approximately HK$335,550,000 has been recognised in the consolidated income statement with aggregate proceeds of approximately HK$508,667,000.

(ii) A gain of approximately HK$40,295,000 arising from dilution of the GDC's interest in GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, from approximately 83.3% to 56.3% of the issued capital of GDC Technology upon the completion of a subscription of 52,383,580 shares of GDC Technology by a subscriber at a consideration of US$6.5 million (or equivalent to approximately HK$50,570,000) in January 2007.

(iii) A net loss of approximately HK$165,000 on further dilution of the Group's interest in GDC Technology upon exercise of share options of GDC Technology during the year.

12. GAIN ON DISPOSAL OF INTEREST IN A JOINTLY CONTROLLED ENTITY

On 1 December 2006, the Group entered into an agreement with China Beijing Shougang Hotel Development Company ("Shougang Hotel"), a wholly owned subsidiary of Shougang Corporation, and Strength Up Investments Limited ("Strength Up"), a wholly owned subsidiary of Shougang Holding, for the disposal of the Group's 44% interest in 北京東直門國際公寓有限公司 Beijing Dongzhimen International Apartment Co. Ltd. ("Beijing Dongzhimen") to Shougang Hotel and Strength Up for a consideration of RMB170,000,000 (the "Dongzhimen Disposal"). Beijing Dongzhimen is a sino-foreign equity joint venture which was established in the PRC and is principally engaged in the provision of serviced apartment services through its ownership of East Lake Villas located in Dongcheng District, Beijing, the PRC. The Dongzhimen Disposal was approved by the independent shareholders of the Company in January 2007 and was completed in June 2007 upon receipt of approval from the relevant PRC authorities. Accordingly, a gain on disposal of interest in a jointly controlled entity of approximately HK$61,039,000 has been recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

13. GAIN ON DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES

Included in the gain on disposal of partial interests in subsidiaries for the year ended 31 December 2006, an amount of approximately HK$24,711,000 related to the disposal of partial interest in South China International Leasing Company Limited ("South China Leasing"), which is established in the PRC with principal activities in the provision of finance leasing including the leasing of machinery, equipment, electrical equipment, meters, motor vehicles and the leasing of immovable properties in the PRC. South China Leasing is a sino-foreign equity joint venture established in the PRC on 20 May 1989. In June 2006, the Group entered into a sale and purchase agreement in respect of a disposal of the Group's 30% effective interest in South China Leasing at a consideration of HK$25,000,000 (the "South China Leasing Disposal"). Upon the completion of the South China Leasing Disposal, the Group's effective interest in South China Leasing decreased from 80% to 50% and South China Leasing became an associate of the Group. Details of the South China Leasing Disposal are set out in the circular of the Company dated 6 July 2006.

As explained in note 43(a), South China Leasing became a subsidiary of the Company during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

13. GAIN ON DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES (continued)

The net assets of the finance leasing business at the date of disposal at 15 June 2006 were as follows:

	HK$'000
Net assets disposed of	
Investment property	1,200
Property, plant and equipment	2,261
Intangible asset	21,438
Finance lease receivables	837,507
Other receivables	119
Bank balances and cash	43,491
Borrowings	(794,672)
Trade and other payables	(11,707)
Income received in advance	(9,229)
Security deposits received	(31,086)
	59,322
Attributable goodwill	1,087
	60,409
Profit on disposal	24,711
Amount due to a group company previously eliminated on consolidation	(58,189)
Interests in associates	(2,456)
Total cash consideration	24,475
Satisfied by:	
Cash	25,000
Direct transaction costs	(525)
	24,475
Net cash outflow arising on disposal:	
Net cash consideration	24,475
Bank balances and cash disposed of	(43,491)
	(19,016)

During the year ended 31 December 2006, the finance leasing business paid approximately HK$755,340,000 in respect of operating activities and received of approximately HK$770,659,000 in respect of financing activities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

14. INCOME TAX EXPENSE

	2007 HK$'000	2006 HK$'000
Current tax:		
Hong Kong		
Provision for the year	1,479	291
Overprovision in prior years	–	(2)
	1,479	289
PRC Enterprise Income Tax ("EIT")	5,352	–
	6,831	289
Deferred taxation *(note 40)*:		
Current year	(46)	814
	6,785	1,103

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions, if any.

Pursuant to the relevant income tax regulations for productive enterprises with foreign investment established in the PRC and being approved by the relevant PRC tax authority, some subsidiaries in the PRC are eligible for an exemption from PRC EIT for two years starting from the first profit-making year after offsetting all tax losses carried forward from the previous five years, followed by a 50% reduction in the next three years. However, such exemption for some subsidiaries expired during the year ended 31 December 2007. For the year ended 31 December 2006, no provision for PRC EIT had been made in the consolidated financial statements as those PRC subsidiaries were either exempted from PRC EIT or did not have assessable profit for that year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

14. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the profit (loss) before tax in the consolidated income statement as follows:

	2007 HK$'000	2006 HK$'000
Profit (loss) before tax	447,998	(15,075)
Tax at Hong Kong Profits Tax rate of 17.5%	78,400	(2,638)
Tax effect on share of result of a jointly controlled entity	–	(268)
Tax effect on share of result of associates	(1,270)	188
Tax effect of expenses not deductible for tax purposes	8,551	8,639
Tax effect of income not taxable for tax purposes	(76,762)	(7,711)
Overprovision in prior years	–	(2)
Tax effect of deferred tax assets not recognised	4,578	3,257
Tax effect of utilisation of deferred tax assets previously not recognised	(8,551)	(778)
Tax effect of temporary differences arising from unrealised profits resulting from intra-group transactions not recognised	2,961	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(898)	192
Effect of tax exemptions granted to the PRC subsidiaries	–	224
Others	(224)	–
Income tax expense for the year	6,785	1,103

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

15. PROFIT (LOSS) FOR THE YEAR

	2007 HK$'000	2006 HK$'000
Profit (loss) for the year has been arrived at after charging:		
Staff costs, including Directors' remuneration *(note 16)*:		
– Salaries, wages and other benefits	76,697	49,167
– Retirement benefit scheme contributions	1,814	659
– Share-based payments	72,351	5,937
Total staff costs	150,862	55,763
Less: amounts included in production work in progress	(13,612)	(2,626)
	137,250	53,137
Minimum lease payments under operating leases for land and buildings	6,008	4,938
Allowance for bad and doubtful debts	230	1,660
Allowance for finance lease receivables	–	4,649
Write-down of inventories	–	1,077
Amortisation of intangible asset	–	428
Amortisation of prepaid lease payments	99	80
Auditor's remuneration	3,252	1,650
Depreciation of property, plant and equipment	4,482	6,826
Less: amounts included in production work in progress	(2,049)	(2,121)
	2,433	4,705
Cost of inventories recognised as an expense	137,819	7,470
Loss on disposal of property, plant and equipment	119	–
Research and development costs	4,432	2,422
and after crediting:		
Gross rents from investment properties	7,568	7,109
Less: outgoings	(579)	(593)
	6,989	6,516

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For the year ended 31 December 2007

16. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 11 (2006: 12) Directors were as follows:

	Wang Qinghai HK$'000	Cao Zhong HK$'000	Chen Zheng HK$'000	Wang Tian HK$'000	Cheng Xiaoyu HK$'000	Yuan Wenxin HK$'000	Leung Shun Sang, Tony HK$'000	Tam King Ching, Kenny HK$'000	Zhou Jianhong HK$'000	Yip Kin Man, Raymond HK$'000	Liu Wei HK$'000	Total HK$'000
2007												
Fees	120	–	–	–	–	–	120	150	150	143	10	693
Other emoluments												
Salaries and other benefits	–	720	2,280	1,600	800	1,600	–	–	–	–	–	7,000
Retirement benefit scheme contributions	–	–	72	60	37	60	–	–	–	–	–	229
Share-based payments	1,810	1,810	1,810	1,448	1,448	1,448	1,810	181	181	181	181	12,308
Total emoluments	1,930	2,530	4,162	3,108	2,285	3,108	1,930	331	331	324	191	20,230

	Wang Qinghai HJK$'000	Cao Zhong HK$'000	Chen Zheng HK$'000	Wang Tian HK$'000	Cheng Xiaoyu HK$'000	Yuan Wenxin HK$'000	Leung Shun Sang, Tony HK$'000	Choy Hok Man, Constance HK$'000	Tam King Ching, Kenny HK$'000	Hui Hung, Stephen HK$'000	Zhou Jianhong HK$'000	Liu Wei HK$'000	Total HK$'000
2006													
Fees	120	–	–	–	–	–	120	48	150	24	150	125	737
Other emoluments													
Salaries and other benefits	–	400	1,920	1,400	1,400	1,400	–	–	–	–	–	–	6,520
Retirement benefit scheme contributions	–	–	72	60	60	60	–	–	–	–	–	–	252
Share-based payments	–	696	696	–	–	–	668	–	–	64	–	–	2,124
Total emoluments	120	1,096	2,688	1,460	1,460	1,460	788	48	150	88	150	125	9,633

No Director waived any emoluments in both years.

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16. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2006: two) were the Directors whose emoluments are set out above. The emoluments of the remaining two (2006: three) individuals was as follows:

	2007 *HK$'000*	2006 *HK$'000*
Share-based payments	31,967	–
Salaries and other benefits	3,680	5,734
Contributions to retirement benefits schemes	16	36
	35,663	5,770

Its emolument was within the following bands:

	2007 No. of employees	2006 No. of employees
Nil to HK$1,000,000	–	–
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	–	2
HK$2,000,001 to HK$2,500,000	–	–
HK$2,500,001 to HK$3,000,000	–	1
HK$3,000,001 to HK$13,500,000	–	–
HK$13,500,001 to HK$14,000,000	1	–
HK$14,000,001 to HK$21,500,000	–	–
HK$21,500,001 to HK$22,000,000	1	–

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17. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 HK$'000	2006 HK$'000
Earnings (loss)		
Earnings (loss) for the purposes of basic earnings (loss) per share (profit (loss) for the year attributable to equity holders of the Company)	425,661	(15,204)
Effect of dilutive potential ordinary shares:		
– adjustment to the share of profits of subsidiaries based on dilution of their earnings per share	(740)	–
Earnings (loss) for the purpose of diluted earnings (loss) per share	424,921	(15,204)

	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	1,144,518	1,136,856
Effect of dilutive potential ordinary shares:		
– share options	36,267	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	1,180,785	1,136,856

No diluted loss per share has been presented for the year ended 31 December 2006 because the exercise price of the Company's share options during that year was higher than the average market price of the shares and the exercise of the subsidiaries' share options would reduce loss per share.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Digital cinema equipment	Computer equipment	Other fixed assets	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1 January 2006	16,739	3,186	1,499	12,162	8,874	–	42,460
Exchange realignment	–	479	–	641	440	–	1,560
Additions	–	675	–	3,093	231	–	3,999
Disposals	–	(2,036)	(1,499)	(1,145)	(1,498)	–	(6,178)
Transfer to investment properties	(15,696)	–	–	–	–	–	(15,696)
At 31 December 2006	1,043	2,304	–	14,751	8,047	–	26,145
Exchange realignment	–	1,583	–	1,314	305	–	3,202
Additions	–	3,511	–	6,144	3,958	1,519	15,132
Disposals	–	–	–	(35)	(428)	–	(463)
Acquired on acquisition of subsidiaries	–	41	–	–	1,077	–	1,118
Transfer from investment properties *(note 20)*	27,931	–	–	–	–	–	27,931
At 31 December 2007	28,974	7,439	–	22,174	12,959	1,519	73,065
DEPRECIATION AND IMPAIRMENT							
At 1 January 2006	604	1,318	1,499	6,768	4,106	–	14,295
Exchange realignment	10	897	–	520	45	–	1,472
Provided for the year	4	1,077	–	4,493	1,252	–	6,826
Eliminated on disposals	–	(1,140)	(1,499)	(1,145)	(133)	–	(3,917)
Transfer to investment properties	(323)	–	–	–	–	–	(323)
At 31 December 2006	295	2,152	–	10,636	5,270	–	18,353
Exchange realignment	2	1,637	–	1,049	232	–	2,920
Provided for the year	122	353	–	2,233	1,774	–	4,482
Eliminated on disposals	–	–	–	(35)	(289)	–	(324)
At 31 December 2007	419	4,142	–	13,883	6,987	–	25,431
CARRYING VALUES							
At 31 December 2007	28,555	3,297	–	8,291	5,972	1,519	47,634
At 31 December 2006	748	152	–	4,115	2,777	–	7,792

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18. PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation is provided to write off the cost of items of property, plant and equipment other than the construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	Over the shorter of term of the lease or 50 years
Leasehold improvements	Over the shorter of term of the lease or 5 years
Digital cinema equipment	10%
Computer equipment	$33^1/_3$%
Other fixed assets	20% – 30%

At 31 December 2006, the carrying value of computer equipment of the Group included an amount of approximately HK$1,221,000 (2007: Nil) in respect of assets held under finance leases with third parties.

At 31 December 2007, the Group has pledged buildings with a carrying value of approximately HK$28,555,000 (2006: HK$748,000) to secure general banking facilities granted to the Group.

19. PREPAID LEASE PAYMENTS

	2007 HK$'000	2006 HK$'000
The Group's prepaid lease payments comprise:		
Long-term leasehold land in Hong Kong	1,650	1,682
Medium-term leasehold land in the PRC	5,727	–
	7,377	1,682
Analysed for reporting purposes as:		
Current asset	147	32
Non-current asset	7,230	1,650
	7,377	1,682

The Group has pledged leasehold land with a net book value of approximately HK$1,650,000 (2006: HK$1,682,000) to secure general banking facilities granted to the Group.

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20. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2006	108,000
Net increase in fair value recognised in the consolidated income statement	8,500
Net increase in fair value of prepaid lease payment upon transfer *(Note a)*	146
Exchange realignment	498
Transfer from property, plant and equipment and prepaid lease payments *(Note a)*	20,154
Disposal of subsidiary	(1,200)
At 31 December 2006	136,098
Exchange realignment	1,863
Net increase in fair value recognised in the consolidated income statement	31,130
Transfer to property, plant and equipment *(Note b)*	(27,931)
At 31 December 2007	141,160

The fair value of the Group's investment properties at 31 December 2007 have been arrived at on the basis of a valuation carried out on that date by AA Property Services Limited, independent qualified professional valuers not connected with the Group. AA Property Services Limited is a registered firm of the Hong Kong Institute of Surveyors (the "HKIS"), and has appropriate qualifications and experiences. The valuation, which conforms to the HKIS Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

At 31 December, 2007, all of the Group's investment properties are held under long leases in Hong Kong with the lease terms of 52 to 126 years and investment properties with carrying amount of approximately HK$141,160,000 (2006: HK$115,300,000) have been pledged to banks to secure general banking facilities granted to the Group.

Notes to the Consolidated Financial Statements

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20. INVESTMENT PROPERTIES (continued)

Notes:

a. During the year ended 31 December 2006, a building with a carrying amount of approximately HK$15,373,000 and the corresponding prepaid lease payments with a carrying amount of approximately HK$4,781,000 were transferred to an investment property. This property was leased by the Group to South China Leasing for that year. Upon the completion of the South China Leasing Disposal as disclosed in note 13, South China Leasing became an associate of the Group during that year, and this property was considered as leased out for rental income and therefore transferred to investment property.

b. During the year ended 31 December 2007, an investment property with a fair value of approximately HK$27,931,000 was transferred to property, plant and equipment. This property was leased by the Group to South China Leasing for the year. Upon the completion of acquisition of further 30% effective interest in South China leasing as disclosed in note 43(a), South China Leasing became a subsidiary of the Company during the year, and this property was considered as used by the Group and was therefore transferred to property, plant and equipment. Upon the transfer, the investment property was valued by AA Property Services Limited. The valuation, which conforms to the HKIS Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

21. GOODWILL

	HK$'000
COST	
At 1 January 2006 and 2007	191,457
Transfer from interests in associates *(note 24)*	787
Arising on acquisition of subsidiaries *(note 43(a))*	52,148
Arising acquisitions of on additional interest in a subsidiary *(note 43(b))*	10,397
At 31 December 2007	254,789
IMPAIRMENT	
At 1 January 2006 and 2007, and 31 December 2007	191,457
CARRYING VALUES	
At 31 December 2007	63,332
At 31 December 2006	–

Particulars regarding impairment testing on goodwill are disclosed in note 22.

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22. IMPAIRMENT TESTING ON GOODWILL

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful life set out in note 21 has been allocated to CGUs mainly represented by the finance leasing division and the digital content distribution and exhibitions division. The carrying values of goodwill as at 31 December 2007 allocated to these units are as follows:

	Goodwill	
	2007	2006
	HK$'000	*HK$'000*
Finance leasing – South China Leasing	**52,935**	–
Digital content distribution and exhibitions – GDC	**10,397**	–
	63,332	–

During the year ended 31 December 2007, management of the Group determines that there are no impairments of any of its CGUs containing goodwill with indefinite useful lives.

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. The recoverable amount is based on certain key assumptions. For the purpose of impairment testing, the value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rates of 18% and 9% for finance leasing division and digital content distribution and exhibitions division respectively. Cash flow projections during the budget period for the CGUs are based on the expected revenue and gross margins during the budget period. Budgeted revenue and gross margins have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the above CGUs to exceed the recoverable amount of the above CGUs.

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23. INTANGIBLE ASSET

	Share of box office receipts HK$'000 (Note)	Finance lease license HK$'000	Total HK$'000
COST			
At 1 January 2006	–	22,411	22,411
Disposal of interests in subsidiaries *(note 13)*	–	(22,411)	(22,411)
At 31 December 2006	–	–	–
Acquisition during the year	221,545	–	221,545
At 31 December 2007	221,545	–	221,545
AMORTISATION			
At 1 January 2006	–	545	545
Charge for the year	–	428	428
Eliminated on disposal of interests in subsidiaries *(note 13)*	–	(973)	(973)
At 31 December 2006 and 2007	–	–	–
CARRYING VALUES			
At 31 December 2007	221,545	–	221,545
At 31 December 2006	–	–	–

Note: The cost of investment in the asset represents consideration paid for acquisition of the contracted right from third parties to share a specified percentage of the box office receipts from those cinemas in the PRC using the digital cinema equipment for exhibition of digital contents. Some of the digital cinema equipment were sold by the Group. The asset has a definite useful life and is amortised on a straight-line basis over 10 years.

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24. INTERESTS IN ASSOCIATES

	2007 HK$'000	2006 HK$'000
Cost of investment in unlisted associates	1,502	16,961
Share of post-acquisition results	(298)	(1,073)
Less: Impairment loss recognised	(780)	(780)
	424	15,108

Details of the Group's principal associates at 31 December 2007 are as follows:

Name of entity	Form of business structure	Place of incorporation/ establishment and operation	Proportion of nominal of value issued share capital held by the Group	Proportion of voting power held	Principal activities
Top Pearl International Development Limited ("Top Pearl")	Incorporated	BVI/ The PRC	50%	50%	Property development
中影首鋼環球數碼數字影院建設（北京）有限公司 CFGDC Digital Cinema Company Limited ("CFGDC")	Sino-foreign equity joint venture	The PRC/ The PRC	49%	40% *(Note)*	Deployment of digital cinema network and related business

Note: The Group holds 49% of the registered capital of CFGDC and holds 2 votes (representing 40% of total votes) in the board of directors of CFGDC. Pursuant to the Articles of Association of CFGDC, over 50% vote is required to pass a resolution in relation to the financial and operating policies of CFDGC. The Directors considers the Group does not control CFGDC but the Group can exercise significant influence over CFGDC. Hence, CFGDC is classified as an associate of the Group.

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24. INTERESTS IN ASSOCIATES (continued)

The summarised financial information in respect of the Group's associates is set out bellows:

	2007 HK$'000	2006 HK$'000
Total assets	2,837	1,114,636
Total liabilities	(1,972)	(1,085,994)
Net assets	865	28,642
Group's share of net assets of associates	424	14,321
Goodwill *(Note)*	–	787
	424	15,108
Revenue	99,860	42,101
Profit (loss) for the year	14,498	(2,146)
Group's share of results of associates for the year	7,255	(1,073)

Note:

GOODWILL

	HK$'000
As at 1 January 2006	–
Arising from acquisition during the year *(note 43(d))*	1,087
Release upon disposal of interest in an associate	(300)
As at 31 December 2006	787
Transfer to goodwill *(note 21)* upon acquisition of further interests in associates *(Note)*	(787)
As at 31 December 2007	–

Note: In November 2007, the Group acquired a further 50% equity interest in Jeckman Holdings Limited ("Jeckman"), which represented an effective acquisition of a further 30% interest in South China Leasing (the "Jeckman Acquisition"). Upon the completion of the Jeckman Acquisition, the Group's effective interest in South China Leasing increased from 50% to 80% and the Group's equity interest of Jeckman increased from 50% to 100%. Accordingly, Jeckman and South China Leasing became subsidiaries of the Company thereafter. Particulars regarding the Jeckman Acquisition are disclosed in note 43(a).

Notes to the Consolidated Financial Statements

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25. LOAN TO/ADVANCE TO ASSOCIATES

(a) Loan to Top Pearl

	2007 HK$'000	2006 HK$'000
Loan to Top Pearl	27,900	27,900
Due from Top Pearl	3,589	3,589
	31,489	31,489
Less: Allowance for bad and doubtful debt	(31,489)	(31,489)
	–	–

The loan of approximately HK$27,900,000 as at 31 December 2007 and 2006 to Top Pearl is unsecured, interest-free and has no fixed terms of repayment. The amount "Due from Top Pearl" is unsecured, interest-free and has no fixed terms of repayment. All of these amounts have been fully impaired at the balance sheet date.

(b) Advance to an associate

	2007 HK$'000	2006 HK$'000
Advance to an associate	–	57,704

As at 31 December 2006, the amount was unsecured, non-interest bearing and had no fixed terms of repayment. In the opinion of the Directors, the Company would not demand repayment within one year from the balance sheet date and was therefore considered as non-current. Such non-interest bearing advance was carried at amortised cost determined using the effective interest method at subsequent balance sheet dates. The effective interest rate used was 6%, being approximate to the prevailing market borrowing rate of interest for a similar instrument upon initial recognition.

The advance was transferred to advance to a subsidiary and eliminated on consolidation upon acquisition of further interests in the associates during the year, details of which are set out in note 43(a).

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25. LOAN TO/ADVANCE TO ASSOCIATES (continued)

(c) Amounts due from (to) associates

	2007 HK$'000	2006 HK$'000
Amounts due from associates	1,053	28,168
Amount due to an associate	–	19

The amounts are unsecured, non-interest bearing and repayable on demand.

Notes to the Consolidated Financial Statements

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26. FINANCE LEASE RECEIVABLES

During the year ended 31 December 2007, the Group resumed finance leasing business upon completion of the Jeckman Acquisition as disclosed in note 43(a). All interest rates inherent in the leases are determined at PBC Rate plus a premium rate ranging from 0.4% to 0.9% per annum at the contract date over the lease terms.

	Minimum lease receipts		Present value of minimum lease receipts	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finance lease receivables comprise:				
Within one year	**453,221**	–	**344,404**	–
In more than one year but not more than two years	**445,482**	–	**367,104**	–
In more than two years but not more than three years	**465,960**	–	**427,555**	–
In more than three years but not more than four years	**162,768**	–	**147,825**	–
In more than four years but not more than five years	**77,156**	–	**71,792**	–
More than five years	**15,799**	–	**15,193**	–
	1,620,386	–	**1,373,873**	–
Less: Unearned finance income	**(246,513)**	–	**N/A**	N/A
Present value of minimum lease receipts	**1,373,873**	–	**1,373,873**	–
Analysed as:				
Current finance lease receivables (receivable within 12 months)			**344,404**	–
Non-current finance lease receivables (receivable after 12 months)			**1,029,469**	–
			1,373,873	–

Effective interest rates of the above finance lease receivables for the year are as follows:

	2007	2006
Effective interest rates	**6% to 17%**	–

26. FINANCE LEASE RECEIVABLES (continued)

For the year ended 31 December 2007, finance lease receivables of approximately HK$1,345,221,000 (2006: Nil) have been pledged against specific bank borrowings granted to the Group and there were no finance lease receivables past due as at 31 December 2007.

Finance lease receivables are secured over the deposits received of approximately HK$73,495,000 at 31 December 2007.

All the Group's finance lease receivables that are denominated in Renminbi, the functional currency of the relevant group entity.

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27. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials	4,395	1,770
Finished goods	21,386	9,031
	25,781	10,801

28. PRODUCTION WORK IN PROGRESS

	2007 HK$'000	2006 HK$'000
Movie and television series	11,094	11,727

29. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

The following is details of contracts from CG production in progress at the balance sheet date:

	2007 HK$'000	2006 HK$'000
Contract costs incurred plus recognised profits less recognised losses	19,137	18,488
Less: progress billings	(19,083)	(19,530)
	54	(1,042)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	1,494	808
Amounts due to customers for contract work	(1,440)	(1,850)
	54	(1,042)

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30. TRADE RECEIVABLES

	2007 HK$'000	2006 HK$'000
Trade receivables	19,273	11,732
Less: Allowance for bad and doubtful debts	(230)	(1,660)
	19,043	10,072

The Group allows an average credit periods of 90 days to its trade customers. The following is an aged analysis of the trade receivables at the balance sheet date:

	2007 HK$'000	2006 HK$'000
0 – 90 days	17,179	9,506
91 – 180 days	1,053	519
Over 180 days	811	47
	19,043	10,072

Included in the Group's trade receivable balances are debtors with an aggregate carrying amount of approximately HK$1,864,000 (2006: HK$566,000) which are past due at the reporting date for which the Group has not provided for impairment loss as the Directors assessed that the balances will be recovered. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables which are past due but not impaired:

	2007 HK$'000	2006 HK$'000
91 – 180 days	1,053	519
181 – 270 days	–	47
271 – 360 days	306	–
Over 360 days	505	–
Total	1,864	566

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30. TRADE RECEIVABLES (continued)

Movement in the allowance for doubtful debts

	2007 HK$'000	2006 HK$'000
Balance at beginning of the year	1,660	521
Impairment losses recognised on receivables	230	1,660
Amounts written off as uncollectible	(1,660)	(521)
Balance at end of the year	230	1,660

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$230,000 which is considered uncollectible.

31. OTHER FINANCIAL ASSETS

Prepayments, deposits and other receivables

	2007 HK$'000	2006 HK$'000
Other receivables	33,611	4,455
Prepayments	2,268	894
Deposits	6,380	1,701
	42,259	7,050

Other receivables as at 31 December 2007 mainly represent a temporary payment of approximately HK$24,600,000 to a third party for a potential project of which a minority shareholder of a subsidiary agree to pledge its equity interest in the subsidiary as security of the settlement and handling fee receivable from the finance lease borrowers. Prepayments mainly comprise prepayment made for operations

The Group does not hold any collateral over these balances except for the temporary payment mentioned above. The average age of the other receivables at 31 December 2007 are 91 days (2006: 30 days).

31. OTHER FINANCIAL ASSETS (continued)

Restricted bank deposits

The amounts as at 31 December 2007 represented bank deposits restricted until long-term bank borrowings are repaid and are therefore classified as non-current assets.

The deposits carried at average interest rate at 8.64% per annum. The restricted bank deposits will be released upon the full settlement of the relevant bank borrowings.

Pledged bank deposits

As at 31 December 2007, the pledged bank deposits of approximately HK$8,852,000 which carried interest rate of 3.75% per annum represented:

(i) A bank deposit of approximately HK$1,052,000 (2006: HK$1,014,000) restricted for the repayment of short-term bank borrowings, which will be released upon full settlement of the relevant bank borrowing.

(ii) A bank deposit of approximately HK$7,800,000 (2006: Nil) pledged to a bank to secure a purchase agreement entered into with an independent third party. The pledged bank deposit will be released upon the settlement of the relevant purchase agreement.

Bank balances and cash

The Group's deposits carry interest rate at prevailing bank saving deposits rate with maturity of less than 3 months.

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32. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments as at 31 December 2007 represent equity securities as follows:

	2007 HK$'000	2006 HK$'000
Listed in Hong Kong *(note 49(a))*	20,982	8,946
Listed in the PRC	8,864	–
	29,846	8,946

The fair values of the held-for-trading investments are determined based on the quoted market bid prices available on the relevant exchanges.

33. INTEREST IN A JOINTLY CONTROLLED ENTITY HELD FOR SALE

At 31 December 2006, the Group had an interest in the following jointly controlled entity:

Name of entity	Form of business structure	Place of establishment and operation	Proportion of nominal value of issued ordinary share capital indirectly held by the Company	Principal activities
Beijing Dongzhimen	Sino-foreign equity joint venture	The PRC	44%	Property holding and provision of residential service apartments

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33. INTEREST IN A JOINTLY CONTROLLED ENTITY HELD FOR SALE (continued)

The summarised financial information in respect of Beijing Dongzhimen as at 31 December 2006 was set out below:

	HK$'000
Non-current assets	446,403
Current assets	12,525
Current liabilities	(108,080)
Non-current liabilities	(65,646)
Net assets	285,202
Group's share of net assets	125,489
Income	110,469
Expenses	(106,989)
Profit for the year	3,480
Group's share of results	1,531

The interest in Beijing Dongzhimen was disposed by the Group during the year ended 31 December 2007, details of which are set out in note 12.

34. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2007 HK$'000	2006 HK$'000
0 – 90 days	4,802	3,694
91 – 180 days	344	150
	5,146	3,844

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35. INCOME RECEIVED IN ADVANCE

As at 31 December 2007, the income received in advance represented handling fee income received from finance lease customers for administrative services provided over the relevant lease term, training fee income received in advance before the training courses are completed and production and distribution income of films and television programme received before completion of production and distribution of films and television programme from the customers.

As at 31 December 2006, the income received in advance represent training fee income received in advance before the training courses are completed and production and distribution income of films and television programme received before completion of production and distribution of films and television programme from the customers.

	2007 HK$'000	2006 HK$'000
Analysed for reporting purposes:		
Current	23,361	12,549
Non-current	21,245	–
	44,606	12,549

36. AMOUNTS DUE TO RELATED PARTIES/AMOUNT DUE TO A FORMER SHAREHOLDER OF A SUBSIDIARY

	Notes	2007 HK$'000	2006 HK$'000
Amounts due to related parties			
– due within one year:			
Mr. Raymond Dennis Neoh	(a)	455	575
Madam Chan Wing Yee, Betty	(b)	–	1,201
		455	1,776
Amount due to a former shareholder of a subsidiary			
– due after one year	(a)	–	455

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36. AMOUNTS DUE TO RELATED PARTIES/AMOUNT DUE TO A FORMER SHAREHOLDER OF A SUBSIDIARY (continued)

Notes:

(a) The amount is unsecured, non-interest bearing and is stated at amortised cost at effective interest rate of 9.8%.

(b) As at 31 December 2006, the amount due to Madam Chan Wing Yee, Betty, the spouse of Mr. Anthony Francis Neoh who was a shareholder of the Company, was unsecured. Except for an amount of approximately HK$201,000 which was non-interest bearing, the remaining amount was interest bearing at the best lending rate as quoted by the Hong Kong and Shanghai Banking Corporation Limited ("Best Lending Rate") plus 3% per annum. The amount was fully settled during the year ended 31 December 2007.

37. AMOUNT DUE TO A SHAREHOLDER/AMOUNT DUE TO A FELLOW SUBSIDIARY

	Notes	2007 HK$'000	2006 HK$'000
Amount due to a shareholder			
– due within one year:			
Bright Oceans Corporation (HK) Limited	(a)	–	512
Amount due to a fellow subsidiary			
– due after one year			
Shougang (Hong Kong) Finance Company Limited ("Shougang Finance")	(b)	–	40,000

Notes:

(a) As at 31 December 2006, the loan was unsecured. Except for an amount of approximately HK$303,000 which was non-interest bearing, the remaining amount was interest bearing at the Best Lending Rate plus 3% per annum. The amount was fully settled during the year ended 31 December 2007.

(b) As at 31 December 2006, the amount was unsecured, interest bearing at a fixed rate of 5% per annum and was repayable by 31 March 2008. The amount was fully settled during the year ended 31 December 2007.

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38. BORROWINGS

	2007 HK$'000	2006 HK$'000
Bank loans	1,412,688	85,000
Other loans	4,682	32,883
	1,417,370	117,883
Secured	1,412,688	75,000
Unsecured	4,682	42,883
	1,417,370	117,883
Carrying amount repayable:		
On demand or within one year	362,267	53,818
More than one year, but not exceeding two years	390,048	19,238
More than two years, but not exceeding three years	436,334	29,202
More than three years, but not exceeding four years	147,004	12,500
More than four years, but not exceeding five years	81,717	3,125
	1,417,370	117,883
Less: Amounts due within one year shown under current liabilities	(362,267)	(53,818)
Amounts due after one year	1,055,103	64,065

The Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	2007 HK$'000	2006 HK$'000
Fixed-rate borrowings which are due within one year		
– Bank loan	13,898	10,000
– Other loans	4,682	14,588

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38. BORROWINGS (continued)

The Group's variable-rate borrowings and the contractual maturity dates are as follows:

	2007 HK$'000	2006 HK$'000
Variable-rate borrowings which are due:		
Within one year	343,687	29,230
More than one year, but not exceeding two years	390,048	19,240
More than two years, but not exceeding three years	436,334	29,200
More than three years, but not exceeding four years	147,004	12,500
More than four years, but not exceeding five years	81,717	3,125
	1,398,790	93,295

The ranges of effective interest rates (which are equal to contractual interest rates) on the Group's borrowings as follows:

	2007	2006
Effective interest rate:		
Fixed-rate borrowings		
– Bank loan	6.73%	6.28%
– Other loans	12%	7% to 15%
Variable-rate borrowings		
– Bank loans	HIBOR plus 1% to 1.375%	HIBOR plus 1% to 1.375%
– Other loans	–	3%

In any event of default repayment by finance lease receivables, the ownership of the underlying assets of respective finance lease will be taken over by the bank and the bank has the right to recover the remaining outstanding balance of bank borrowings from the Group after realisation of the underlying assets of respective finance lease in the open market. The Group is required to settle any shortfall between the realisation proceeds and the remaining outstanding loan balance to the bank.

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39. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases				
Within one year	–	1,567	–	1,484
In more than one year but not more than two years	–	504	–	489
	–	2,071	–	1,973
Less: future finance charges	–	(98)	N/A	N/A
Present value of lease obligations	–	1,973	–	1,973
Less: Amount due for settlement within 12 months (shown under current liabilities)			–	(1,484)
Amount due for settlement after 12 months			–	489

The Group's obligations under finance leases were secured by the lessor's charge over the leased assets.

As at 31 December 2006, obligations under finance lease of approximately HK$716,000 and HK$1,257,000 were denominated in Hong Kong dollars and Renminbi, respectively, the functional currency of the subsidiaries that entered into these arrangements.

The lease term ranged from two to three years. Interest rates were fixed at the contract date and ranged from 6.3% to 12.3% per annum for the year ended 31 December 2006. All leases are on a fixed repayment basis and no arrangements had been entered into for contingent rental payments.

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40. DEFERRED TAX LIABILITIES

The following are the major deferred tax (assets) liabilities recognised and movements thereon during the current and prior years:

	Investment properties	Accelerated (accounting) tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	3,263	(2,124)	(567)	572
Charge (credit) to consolidated income statement	1,488	2,259	(2,933)	814
At 31 December 2006	4,751	135	(3,500)	1,386
Charge (credit) to consolidated income statement	5,448	1	(5,495)	(46)
At 31 December 2007	10,199	136	(8,995)	1,340

At the balance sheet date, the Group has unused tax losses of approximately HK$115,434,000 (2006: HK$106,734,000) available for offset against future profits subject to approval from the relevant tax authority. A deferred tax asset has been recognised in respect of approximately HK$51,400,000 (2006: HK$20,000,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$64,034,000 (2006: HK$86,734,000) due to the unpredictability of future profit streams.

At the balance sheet date, the Group has deductible temporary differences of approximately HK$32,716,000 (2006: HK$32,716,000) attributable to the difference between tax allowances and depreciation. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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41. SHARE CAPITAL

	2007		2006	
	Number of shares	Nominal value HK$'000	Number of shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At 1 January and 31 December	2,000,000,000	20,000	2,000,000,000	20,000
Issued and fully paid:				
At 1 January	1,136,856,469	11,369	1,136,856,469	11,369
Exercise of share options *(Note)*	13,536,000	135	–	–
At 31 December	1,150,392,469	11,504	1,136,856,469	11,369

Note: During the year, share option holders exercised their right to subscribe for 13,536,000 ordinary shares of the Company at HK$0.41 per share.

42. CAPITAL COMMITMENTS

	2007 HK$'000	2006 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
Investment in an associate	20,954	–
Acquisition of property, plant and equipment and intangible asset	2,928	–
	23,882	–

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43. ACQUISITION OF SUBSIDIARIES/ADDITIONAL INTERESTS IN SUBSIDIARIES

(a) On 14 August 2007, the Group signed an agreement to acquire a further 50% equity interest in Jeckman and the assignment of the HK$22.8 million shareholder's loan to Jeckman for a total consideration of HK$52 million (the "Jeckman Acquisition"). The Jeckman Acquisition was completed on 2 November 2007, the Group's effective interest in Jeckman increased from 50% to 100% and the effective interest in South China Leasing increased from 50% to 80%. Details of which are set out in the Company's circular dated 11 October 2007.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination *HK$'000*	Fair value adjustments *HK$'000*	Fair value *HK$'000*
Net assets acquired:			
Property, plant and equipment	1,118	–	1,118
Finance lease license	20,149	(20,149)	–
Held-for-trading investments	5,598	–	5,598
Finance lease receivables	1,370,413	–	1,370,413
Restricted bank deposits	70,522	–	70,522
Other receivables	26,149	–	26,149
Bank balances and cash	94,447	–	94,447
Borrowings	(1,320,561)	–	(1,320,561)
Trade and other payable	(12,313)	–	(12,313)
Income received in advance	(28,185)	–	(28,185)
Shareholder's loan	(22,800)	–	(22,800)
Amounts due to group companies	(66,226)	–	(66,226)
Security deposits received	(69,947)	–	(69,947)
	68,364	(20,149)	48,215
Interests in associates			(43,555)
Minority interests			(27,608)
Goodwill *(note 21)*			52,148
Assignment of shareholder's loan			22,800
			52,000
Total consideration satisfied by:			
Cash			52,000
Net cash inflow arising on acquisition:			
Cash consideration paid			(52,000)
Bank balances and cash acquired			94,447
			42,447

Notes to the Consolidated Financial Statements

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43. ACQUISITION OF SUBSIDIARIES/ADDITIONAL INTERESTS IN SUBSIDIARIES (continued)

(a) (continued)

South China Leasing contributed a loss of approximately HK$1.1 million to the Group for the period between the date of acquisition and the balance sheet date.

Had the acquisition been completed on 1 January 2007, total group revenue for the year would have been increased by approximately HK$100 million, and profit for the year would have been increased by approximately HK$7 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

The fair value of contain assets of South China Leasing acquired has been determined on a provisional basis.

(b) On 16 March 2007, Upper Nice Assets Ltd. ("Upper Nice"), a wholly owned subsidiary of the Company, and GDC entered into a subscription agreement, pursuant to which Upper Nice conditionally agreed to subscribe for 100,000,000 new shares of GDC at HK$0.54 per share. The subscription was approved by independent shareholders of GDC at the special general meeting held on 23 April 2007. Accordingly, goodwill of approximately HK$10,397,000 arose during the year ended 31 December 2007.

(c) On 14 August 2007, GDC Holdings Limited ("GDC Holdings"), a subsidiary of the Company, entered into a subscription agreement with GDC Technology, pursuant to which GDC Holdings conditionally agreed to subscribe for 53,388,178 new shares of GDC Technology at HK$2 per share (the "GDC Tech Subscription") at a consideration of approximately HK$106,776,000. The GDC Tech Subscription was completed on 2 November 2007 and GDC Holdings' equity interest in GDC Technology increased from approximately 51.1% to 62.4% thereafter.

The Group appointed Messrs. Greater China Appraisal Limited, independent qualified professional valuers not connected with the Group, to assist the Group to ascertain the fair value of the net assets of GDC Technology in relation to the acquisition of additional interest in GDC Technology at the date of completion of the GDC Tech Subscription. Intangible assets mainly including customer orders and technology, have been identified with aggregate amount of fair value of approximately HK$410 million in accordance with the income approach and replacement cost approach while the fair value of other assets and liabilities of GDC Technology at that time did not differ significantly from their respectively carrying amounts.

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43. ACQUISITION OF SUBSIDIARIES/ADDITIONAL INTERESTS IN SUBSIDIARIES (continued)

(c) (continued)

Accordingly, a discount on the acquisition of the additional interest in GDC Technology of approximately HK$1,342,000 arose, which represented the excess of the Group's additional interest in the fair values of the net assets of GDC Technology over the cost of the GDC Tech Subscription at the date of completion of the GDC Tech Subscription. In addition, it resulted in a special reserve in the amount of approximately HK$23,496,000 attributable to the equity holders of the Company which represented the difference between the fair value and the carrying amount of the net assets of GDC Technology attributable to the additional interest in GDC Technology being acquired.

(d) In July 2005, the Group entered into an agreement to acquire the entire interest in Valuework Investment Holdings Limited ("Valuework"), which held a 20% equity interest in South China Leasing, at a consideration of approximately HK$1,460,000 (the "Valuework Acquisition"). The consideration for the Valuework Acquisition was fully settled in January 2006. Since then the Group's effective interest in South China Leasing increased from 60% to 80%.

The net assets acquired in the above purchase transaction accounted for using the purchase method, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Net assets acquired:			
Interest in South China Leasing	4,818	–	4,818
Bank balances and cash	65	–	65
Other payables and accruals	(4,510)	–	(4,510)
	373	–	373
Goodwill *(note 24)*			1,087
Total consideration, satisfied by cash			1,460
Net cash outflow arising on acquisition:			
Cash consideration paid			(1,460)
Bank balances and cash acquired			65
			(1,395)

Valuework did not contribute any revenue and loss before tax to the Group for the period between the date of acquisition and the balance sheet date.

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44. MAJOR NON CASH TRANSACTION

During the year ended 31 December 2007, the Group had goods sold in exchange for an intangible asset in the amount of HK$132,912,000 (2006: Nil).

45. LITIGATION

On 14 May 2003, GDC Entertainment Limited ("GDC Entertainment"), a subsidiary of the Company, entered into a co-production agreement (the "Co-production Agreement") with Westwood Audiovisual and Multimedia Consultants, Inc. ("WAMC") and Production and Partners Multimedia, SAS ("P&PM"), in which GDC has a 25% equity interest, in relation to an animated television series.

In about November 2004, P&PM and WAMC commenced proceedings against GDC Entertainment in the Court of Commerce of Angouleme (France) alleging breaches on the part of GDC Entertainment of the Co-production Agreement.

In relation to the French proceedings, the Group's French legal advisers have advised that the enforcement of P&PM's and WAMC's claims should only be limited to the assets of GDC Entertainment.

Further, arbitration proceedings were commenced by GDC Entertainment against P&PM and WAMC in Hong Kong by way of a notice of arbitration dated 16 June 2005 issued pursuant to the Co-production Agreement. In the arbitration, issues had been raised by GDC Entertainment as to whether P&PM and/or WAMC was in repudiatory breach of the Co-production Agreement which entitled GDC Entertainment to terminate the same claim of damages from P&PM and WAMC. Pleadings have not yet been exchanged in the arbitration. P&PM and WAMC have applied to the arbitrator for the determination of a preliminary issue as to whether the arbitrator has jurisdiction to hear the dispute which GDC Entertainment will refer to the arbitrator in the arbitration. The hearing of the application was held on 20 January 2006. Award of the arbitrator was published on the Issue of Jurisdiction on 23 March 2006 dismissing the application, and made an order for costs in GDC Entertainment's favour in respect of the application. Since then, there has been no further step taken by the parties. GDC Entertainment has written to the arbitrator seeking directions for the further conduct of the arbitration, including the service of pleadings in the arbitration. GDC Entertainment is still waiting to hear from the arbitrator as to how she would like to proceed with the arbitration.

The Directors are of the opinion that settlement of the claim is remote. Accordingly, no provision for any potential liability has been made in the consolidated financial statements.

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46. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was approximately HK$7,568,000 (2006: HK$7,109,000). All of the properties held have committed tenants for the next one to two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**2,546**	4,169
In the second to fifth years inclusive	**276**	2,298
	2,822	6,467

The Group as lessee

Minimum lease payments paid under operating lease in respect of office premises during the year was approximately HK$6,008,000 (2006: HK$4,938,000).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**9,268**	2,648
In the second to fifth years inclusive	**8,244**	3,611
Over five years	**3,289**	3,905
	20,801	10,164

Operating lease payments represent rentals payable by the Group for certain of its office premises, production studio, training centers, warehouse and staff quarters. Leases for properties are negotiated for a term ranging from one to ten years with fixed rentals.

Notes to the Consolidated Financial Statements

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47. SHARE OPTIONS SCHEMES

a. Share Option Scheme of the Company

The Company operates the share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations and/or its associated companies. Eligible participants of the Scheme included Directors (including executive and non-executive Directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of its associated companies and any suppliers, customers, consultants, advisers, agents, partners or business associates. The Scheme became effective on 7 June 2002, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the date of the passing of such resolution. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a Director, executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 60 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. An option may be exercised under the Scheme at any time within 10 years from the date of the options granted. All options granted would vest immediately on the date of grant of options.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange's closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange's closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's ordinary shares.

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47. SHARE OPTIONS SCHEMES (continued)

a. Share Option Scheme of the Company (continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following table discloses the details of the share options and movements in such holdings during the years ended 31 December 2007 and 2006:

31 December 2007

				Number of share options					
Grantees	Date of grant	Exercise period	Exercise price per share HK$	Balance as at 1.1.2007	Granted during the year	Transfer during the year (Note a)	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31.12.2007
Directors	23.8.2002	23.8.2002 – 6.6.2012	0.73	75	–	–	–	–	75
	6.3.2003	6.3.2003 – 5.3.2013	0.76	604	–	–	–	–	604
	19.1.2007	19.1.2007 – 18.1.2017	0.41	–	77,298,000	(1,136,000)	(4,000,000)	(9,094,000)	63,068,000
Employees	6.3.2003	6.3.2003 – 5.3.2013	0.76	1,330,000	–	–	–	–	1,330,000
	19.1.2007	19.1.2007 – 18.1.2017	0.41	–	15,200,000	–	(7,000,000)	–	8,200,000
Other participants (Note (b))	19.1.2007	19.1.2007 – 18.1.2017	0.41	–	1,400,000	1,136,000	(2,536,000)	–	–
				1,330,679	93,898,000	–	(13,536,000)	(9,094,000)	72,598,679
Exercisable at the end of the year									72,598,679
Weighted average exercise price				0.76	0.41	0.41	0.41	0.41	0.42

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47. SHARE OPTIONS SCHEMES (continued)

a. Share Option Scheme of the Company (continued)

31 December 2006

Grantees	Date of grant	Exercise period	Exercise price per share *HK$*	Number of share options: Balance as at 1.1.2006	Transfer during the year	Granted during the year	Exercised during the year	Cancelled during the year	Balance as at 31.12.2006
Directors	23.8.2002	23.8.2002 – 6.6.2012	0.73	75	–	–	–	–	75
	6.3.2003	6.3.2003 – 5.3.2013	0.76	604	–	–	–	–	604
Employees	6.3.2003	6.3.2003 – 5.3.2013	0.76	1,330,000	–	–	–	–	1,330,000
				1,330,679	–	–	–	–	1,330,679
Exercisable at the end of the year									1,330,679
Weighted average exercise price				0.76	–	–	–	–	0.76

Notes:

(a) Transfer of share options upon the resignation of a Director during the year.

(b) Other participants include persons who will contribute or have contributed, to the Company or any subsidiaries or any associated companies of the Company.

No consideration received from employees for taking up the options granted for both years.

The closing price of the Company's shares on 19 January 2007, the grant date of the 93,898,000 shares, was HK$0.41 per share. The fair value of the share options determined at the date of grant using the Binomial Option Valuation pricing model was approximately HK$14,949,000.

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47. SHARE OPTIONS SCHEMES (continued)

a. Share Option Scheme of the Company (continued)

The following assumptions were used to calculate the fair value of share options:

	19 January 2007
Grant date share price	HK$0.41
Exercise price	HK$0.41
Option life	10 years
Expected volatility	55.59%
Dividend yield	0%
Risk-free interest rate	4.041%

Expected volatility of the Company was determined by using the historical volatility of the Company's weekly average share prices over the past two years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Share-based payment expenses in respect of grant of the share options by the Company of approximately HK$14,949,000 for the year ended 31 December 2007 (2006: Nil) was included in the administrative expenses.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

b. Share option schemes of GDC (the "GDC Scheme") and GDC Technology (the "GDC Technology Scheme")

The GDC Scheme was adopted pursuant to a resolution passed at a special general meeting of GDC held on 18 July 2003 for the primary purpose of providing incentives or rewards to selected participants for their contribution to GDC. The GDC Scheme will expire on 4 August 2013.

An option may be exercised at any time during the period to be determined and notified by the directors of GDC to the grantee but may not be exercised after the expiry of ten years from the date of offer of that opinion. A consideration of HK$1 is payable upon acceptance of the offer.

The exercise price is determined by the directors of GDC, and will not be less than the higher of the nominal value of the share on the date of offer, the closing price of GDC's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

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47. SHARE OPTIONS SCHEMES (continued)

b. Share option schemes of GDC (the " GDC Scheme") and GDC Technology (the " GDC Technology Scheme") (continued)

The GDC Technology Scheme was adopted pursuant to a resolution passed at a special general meeting of GDC held on 19 September 2006 for the primary purpose of providing incentives or rewards to eligible participants for their contribution to GDC Technology. The GDC Technology Share Scheme will remain in force for a period of 10 years to 18 September 2016.

Details of the GDC Scheme and the GDC Technology Scheme are disclosed in the section "Share Option Schemes" headed in the Report of the Directors.

During the year, 48,300,000 options (2006: 69,848,380 options) and 19,095,000 options (2006: 26,656,665) options have been granted under the GDC Scheme and the GDC Technology Scheme to the directors, employees and other participants of GDC, respectively. All options granted would vest immediately on the date of grant of options.

The following table sets out the movements in the share options of GDC during the year:

				Number of share options			
Grantees	Date of grant	Exercise period	Exercise price per share HK$	Balance as at 1.1.2007	Granted during the year	Exercised during the year	Balance as at 31.12.2007
Directors of GDC	6.10.2006	6.10.2006 – 5.10.2009	0.3	42,443,460	–	(33,634,440)	8,809,020
	30.10.2007	30.10.2007 – 29.10.2012	2.75	–	28,170,000	–	28,170,000
Employees of GDC	6.10.2006	6.10.2006 – 5.10.2009	0.3	14,200,000	–	(14,200,000)	–
	22.3.2007	22.3.2007 – 21.3.2010	1.07	–	3,000,000	(700,000)	2,300,000
	4.4.2007	4.4.2007 – 3.4.2010	1.52	–	2,890,000	(628,000)	2,262,000
	30.10.2007	30.10.2007 – 29.10.2012	2.75	–	9,900,000	–	9,900,000
Other participants	6.10.2006	6.10.2006 – 5.10.2009	0.3	13,204,920	–	(10,704,100)	2,500,820
(Note)	4.4.2007	4.4.2007 – 3.4.2010	1.52	–	4,340,000	(2,559,000)	1,781,000
Totals				69,848,380	48,300,000	(62,425,540)	55,722,840
Weight average exercise price				0.30	2.46	0.37	2.09

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47. SHARE OPTIONS SCHEMES (continued)

b. Share option schemes of GDC (the " GDC Scheme") and GDC Technology (the " GDC Technology Scheme") (continued)

The following table sets out the movements in the share options of GDC Technology during the year:

Grantees	Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Balance as at 1.1.2007	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31.12.2007
Directors of GDC	29.9.2006	29.9.2006 – 28.9.2009	0.145	10,563,334	–	(10,560,001)	–	3,333
	2.11.2007	2.11.2007 – 1.11.2012	2.00	–	17,445,000	–	–	17,445,000
Employees of GDC	29.9.2006	29.9.2006 – 28.9.2009	0.145	7,466,666	–	(7,466,666)	–	–
	5.10.2006	5.10.2006 – 4.10.2009	0.145	5,313,332	–	–	(750,000)	4,563,332
	2.11.2007	2.11.2007 – 1.11.2012	2.00	–	1,650,000	–	–	1,650,000
Other participants *(Note)*	29.9.2006	29.9.2006 – 28.9.2009	0.145	1,173,333	–	–	–	1,173,333
Totals				24,516,665	19,095,000	(18,026,667)	(750,000)	24,834,998
Weight average exercise price				0.145	2.00	0.145	0.145	1.57

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47. SHARE OPTIONS SCHEMES (continued)

b. Share option schemes of GDC (the " GDC Scheme") and GDC Technology (the " GDC Technology Scheme") (continued)

The following table sets out the movements in GDC's share options during the year ended 31 December 2006:

Grantees	Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Balance as at 1.1.2006	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31.12.2006
Directors of GDC	6.10.2006	6.10.2006 – 5.10.2009	0.3	–	42,443,460	–	–	42,443,460
Employees of GDC	6.10.2006	6.10.2006 – 5.10.2009	0.3	–	14,200,000	–	–	14,200,000
Other participants *(Note)*	6.10.2006	6.10.2006 –5.10.2009	0.3	–	13,204,920	–	–	13,204,920
Totals				–	69,848,380	–	–	69,848,380
Weight average exercise price				–	0.30	–	–	0.30

The following table sets out the movements in the share options of GDC Technology during the year ended 31 December 2006:

Grantees	Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Balance as at 1.1.2006	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31.12.2006
Directors	29.9.2006	29.9.2006 – 28.9.2009	0.145	–	12,693,334	(2,130,000)	–	10,563,334
Employees	29.9.2006	29.9.2006 – 28.9.2009	0.145	–	7,466,666	–	–	7,466,666
	5.10.2006	5.10.2006 – 4.10.2009	0.145	–	5,323,332	–	(10,000)	5,313,332
Other participants *(Note)*	29.9.2006	29.9.2006 – 28.9.2009	0.145	–	1,173,333	–	–	1,173,333
Totals				–	26,656,665	(2,130,000)	(10,000)	24,516,665
Weight average exercise price				–	0.145	0.145	0.145	0.145

Note: Other participants include persons who will contribute or have contributed, to the Company or any subsidiaries or any associated companies of the Company.

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47. SHARE OPTIONS SCHEMES (continued)

b. Share option schemes of GDC (the " GDC Scheme") and GDC Technology (the " GDC Technology Scheme") (continued)

The fair value per option of HK$0.013, HK$0.08, HK$0.58, HK$0.86, HK$0.88 and HK$0.83 for options granted on 29 September 2006, 6 October 2006, 22 March 2007, 4 April 2007, 30 October 2007 and 2 November 2007, respectively, were calculated using the Binomial Option Valuation pricing model. The inputs into the model were as follows:

	GDC share option grant date				GDC Technology share option grant date	
	6 October 2006	22 March 2007	4 April 2007	30 October 2007	29 September 2006	2 November 2007
Weighted average share price	HK$0.28	HK$1.07	HK$1.52	HK$2.70	HK$0.10	HK$2.00
Exercise price	HK$0.30	HK$1.07	HK$1.52	HK$2.75	HK$0.145	HK$2.00
Expected volatility	87%	89%	97%	68%	32%	51%
Option life	3 years	3 years	3 years	5 years	3 years	5 years
Risk-free rate	3.75%	3.88%	3.89%	3.49%	3.77%	3.34%
Expected dividend yield	NIL	NIL	NIL	NIL	NIL	NIL

Expected volatility of GDC and GDC Technology were determined by using the historical volatility of GDC's share price and the share price of other companies in similar industries, respectively. The expected lives used in the model have been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Total expenses of approximately HK$57,402,000 (2006: HK$5,937,000) were recognised by the Group for the year ended 31 December 2007 in relation to share options granted by GDC and GDC Technology.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

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48. RETIREMENT BENEFIT SCHEMES

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and Singapore. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in the PRC, the subsidiaries in the PRC participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme.

The retirement benefit costs represent gross contributions paid and payable by the Group to the schemes operated in Hong Kong, the PRC and Singapore (collectively the "Retirement Schemes"). Contributions totalling approximately HK$151,000 (2006: HK$133,000) payable to the Retirement Schemes at 31 December 2007 are included in other payables and accruals. There was no forfeited contribution throughout two consecutive years.

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49. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

		2007 HK$'000	2006 HK$'000
(i)	Rental expenses charged by Winluck Properties Limited, a subsidiary of Shougang Holding	1,615	1,385
(ii)	Rental income received from Gold Regal Limited, a subsidiary of Shougang Holding	142	130
(iii)	Consultancy expense charged by Shougang Holding	960	960
(iv)	Management fee charged by Shougang Concord International Enterprises Company Limited ("Shougang, International"), an associate of Shougang Holding	1,140	870
(v)	Interest expense charged by Shougang Finance, a fellow subsidiary of the Company	109	2,047
(vi)	Interest expense charged by a shareholder of the Company and his spouse	–	2,505
(vii)	Interest expense paid to South China Leasing in respect of finance lease obligations	58	107

At 31 December 2007, the Group's held-for-trading investments included listed securities of 13,870,000 shares (2006: 13,870,000 shares) of Shougang Concord Century Holdings Limited ("Shougang Century"), 4,120,000 shares (2006: Nil) of Shougang Technology Holdings Limited ("Shougang Technology") and 230,000 shares (2006: Nil) of Shougang International. Shougang Century, Shougang Technology and Shougang International are associates of Shougang Holding.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

49. RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of key management personnel

The remuneration of the Directors and other members of key management during the year was as follows:

	2007 HK$'000	2006 HK$'000
Short-term benefits	13,073	14,697
Share-based payments	56,581	2,124
Post-employment benefit	269	312
	69,923	17,133

The remuneration of the Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

During the period, 77,298,000 share options with an exercise price of HK$0.41 per share were granted to the Directors (2006: Nil).

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is a part of a larger group of companies under Shougang Corporation which is controlled by the PRC government. The Directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

The Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the Directors are of the opinion that separate disclosure would not be meaningful. The Directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet and in notes 25, 31, 36 and 37.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of principal subsidiaries at 31 December 2007 are as follows, the changes of subsidiaries as compared with 2006, it was set out in note (f) for details:

Name of subsidiary	Place of incorporation or establishment /operation	Issued and fully paid share capital/ contributed capital *(Note (a))*	Proportion of nominal value of issued share capital held by the Company	Principal activities
Direct subsidiary				
SCG Investment (BVI) Limited	BVI	HK$100,000	100%	Investment holding
Indirect subsidiaries				
首方投資管理(深圳)有限公司	The PRC *(Note (b))*	RMB80,500,000	100%	Investment holding
Concord Grand TV & Movie Investment Limited	BVI	US$1	100%	Investment holding
Dunley Developments Limited	BVI	US$1	100%	Investment holding
Durali Developments Limited	BVI	US$1	100%	Investment holding
Ecko Limited	Hong Kong	HK$2	100%	Property management
Eldex Investment Company Limited	Hong Kong	HK$541,000 (ordinary) HK$1,459,000 (non-voting deferred)	100%	Property investment
GDC Asset Management Limited	BVI	US$1	51%	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation or establishment /operation	Issued and fully paid share capital/ contributed capital *(Note (a))*	Proportion of nominal value of issued share capital held by the Company	Principal activities
Indirect subsidiaries (continued)				
GDC (BVI) Limited	BVI	US$5,214,181	51%	Investment holding
GDC China Limited	Hong Kong	HK$2	51%	Investment holding
GDC Digital Cinema Network Limited	BVI	US$1	51%	Inactive
GDC Entertainment	BVI	US$3,510	51%	Inactive
GDC Holdings	BVI	US$5,214,181	51%	Investment holding
GDC International Limited	Samoa	US$1	51%	Provision of CG animation creation and production services
GDC Management Service Limited	Hong Kong	HK$2	51%	Provision of administrative and management services
GDC Technology	BVI	HK$23,259,509	32%	Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis
GDC Technology China Limited	BVI	US$1	32%	Inactive

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation or establishment /operation	Issued and fully paid share capital/ contributed capital *(Note (a))*	Proportion of nominal value of issued share capital held by the Company	Principal activities
Indirect subsidiaries (continued)				
GDC Technology (Hong Kong) Limited	Hong Kong	HK$2	32%	Provision of computing solutions for digital content distribution and exhibitions
GDC Technology Pte. Ltd.	Singapore	S$900,000	32%	Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis
GDC Technology (USA), LLC	United States	US$1,000	32%	Provision of computing solutions for digital content distribution and exhibitions
GDC *(Note (c))*	Bermuda	HK$12,952,455	51%	Investment holding
Grand Award Limited	BVI	US$1	100%	Investment holding
Grand Park Investment Limited	Hong Kong	HK$2	100%	Property investment
Grand Phoenix Limited	BVI	US$1	100%	Investment holding
環球數碼媒體科技(上海)有限公司 Institute of Digital Media Technology (Shanghai) Limited	The PRC *(Note (b))*	US$1,300,000	51%	Provision of CG and animation training in the PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation or establishment /operation	Issued and fully paid share capital/ contributed capital *(Note (a))*	Proportion of nominal value of issued share capital held by the Company	Principal activities
Indirect subsidiaries (continued)				
環球數碼媒體科技研究(深圳)有限公司 Institute of Digital Media Technology (Shenzhen) Limited	The PRC *(Note (b))*	US$35,353,896	51%	Provision of CG and animation training, development of multimedia software and hardware, and provision of related technical consultancy services in the PRC
Jeckman	BVI *(Note (f))*	US$16	100%	Investment holding
Linksky Limited	Hong Kong	HK$2	100%	Property holding
Long Cosmos Investment Limited	Hong Kong	HK$2	100%	Provision of management services
Lyre Terrace Management Limited	Hong Kong	HK$1,000,000	100%	Investment holding and property investment
On Hing Investment Company, Limited	Hong Kong	HK$1,000 (ordinary) HK$2,000,000 (non-voting deferred)	100%	Property investment
SCG Finance Corporation Limited	Hong Kong	HK$20	100%	Provision of financial services
SCG Financial Investment Limited	BVI	US$1,000	100%	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation or establishment /operation	Issued and fully paid share capital/ contributed capital *(Note (a))*	Proportion of nominal value of issued share capital held by the Company	Principal activities
Indirect subsidiaries (continued)				
SCG Leasing Corporation Limited	Hong Kong	HK$2	100%	Property investment
Shongang GDC Media Holding Limited	Hong Kong	HK$1	51%	Investment holding
South China Leasing	The PRC *(Note (d))* *(Note (f))*	US$24,000,000	80%	Leasing of property, plant and equipment
Strenbeech Limited	BVI	HK$147,000,078	100%	Property investment
Tin Fung Investment Company, Limited	Hong Kong	HK$975,000 (ordinary) HK$210,000 (non-voting deferred)	100%	Property investment
Upper Nice	BVI	US$1	100%	Investment holding
Valuework	BVI	US$1	100%	Investment holding
四方源創國際影視文化傳播(北京)有限公司	The PRC *(Note (d))*	RMB20,000,000	80%	Production of films and television programme series
廣東四方源創動畫制作有限公司	The PRC *(Note (d))*	RMB10,000,000	64%	Provision of graphic animation creation

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation or establishment /operation	Issued and fully paid share capital/ contributed capital *(Note (a))*	Proportion of nominal value of issued share capital held by the Company	Principal activities
Indirect subsidiaries (continued)				
東陽市四方源創影視制作有限公司	The PRC *(Note (d))*	RMB1,000,000	80%	Production of film and television programme series
杭州四方源創動畫制作有限公司	The PRC *(Note (d))*	RMB3,000,000	64%	Provision of graphic animation creation
深圳市環球數碼科技有限公司	The PRC *(Note (d))*	RMB3,000,000	32%	Provision of computing solutions for digital content distribution and exhibition
深圳市環球數碼影視文化有限公司	The PRC *(Note (d))*	RMB3,000,000	51%	Animation investment
深圳市南山區環球數碼培訓學校	The PRC *(Note (e))*	RMB200,000	51%	Provision of CG and animation trading in the PRC
上海環球數碼職業技能培訓學校	The PRC *(Note (e))*	RMB200,000	51%	Provision of CG and animation trading in the PRC

Note:

(a) All issued share capital are ordinary shares unless otherwise stated.

(b) These entities are wholly foreign owned enterprises.

(c) This entity is listed on the GEM.

(d) These entities are sino-foreign equity joint venture/enterprises.

(e) These entities are school.

(f) The subsidiaries were newly acquired/incorporated/established in current year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

Particulars of Major Properties

Details of the Group's major properties at the balance sheet date are as follows:

LOCATION		EXISTING USE	LEASE TERM	ATTRIBUTABLE INTEREST OF THE GROUP
Investment properties				
1.	Units A and B on all of 3rd, 6th and 9th Floors and 26 car parking spaces on 4th Floor, Tin Fung Industrial Mansion, 63 Wong Chuk Hang Road, Aberdeen, Hong Kong	Industrial	Long	100%
2.	16th Floor and roof and car parking space nos. 7, 8 and 9, Manson Industrial Building, S.I.L. 739 A Kung Ngam Road, A Kung Ngam, Shaukeiwan, Hong Kong	Industrial	Long	100%
3.	Flat 55 on 15th Floor of Tower 8 (of Parkview Rise) and Carparking Space No.283 on Car Park Entrance 3 (Level 4) Hong Kong Parkview, No. 88 Tai Tam Reservoir Road, Tai Tam, Hong Kong	Residential	Long	100%
4.	Flat 9 on 23rd Floor and Flat 7 on 25th Floor, Apartment Tower on the Western Side, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong	Residential	Long	100%
5.	Flat 1612 of Block Q and Flat 2904 of Block R, Kornhill, Quarry Bay, Hong Kong	Residential	Long	100%

Particulars of Major Properties

LOCATION		EXISTING USE	LEASE TERM	ATTRIBUTABLE INTEREST OF THE GROUP
Investment properties *(continued)*				
6.	Room 2907 on 29th Floor, West Tower, Shun Tak centre, Nos. 168-200 Connaught Road Central, Hong Kong	Commercial	Long	100%
7.	A space known as A35 on Ground Floor, Villa Verde, Guildford Road, The Peak, Hong Kong	Residential	Long	100%
Buildings				
1.	Flat 2602 of Block N, Kornhill, Quarry Bay, Hong Kong	Residential	Long	100%
2.	Eight Offices on 23rd Floor, Times Financial Centre, No. 4001 Shennan Road, Futian District, Shenzhen, Guangdong Province, The People's Republic of China	Commercial	Long	100%

Five Year Financial Summary

	For the year ended 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
			(Restated)	(Restated)	
RESULTS					
Revenue	15,470	14,386	45,811	90,629	**284,303**
Cost of sales	–	–	(43,666)	(53,670)	**(193,371)**
Write-down for production work in progress	–	–	(24,712)	–	**–**
Gross profit (loss)	15,470	14,386	(22,567)	36,959	**90,932**
Other income	2,115	849	4,564	9,732	**23,369**
Distribution costs and selling expenses	–	–	(2,535)	(6,932)	**(5,553)**
Administrative expenses	(15,945)	(38,590)	(99,308)	(83,474)	**(156,036)**
Finance costs	(2,907)	(2,115)	(7,007)	(10,132)	**(4,873)**
Share of results of:					
Jointly controlled entity (net of amortisation of goodwill)	(5,653)	(71,134)	428	1,531	**–**
Associates	8,235	(5,853)	(248)	(1,073)	**7,255**
Gain (loss) on disposal of partial interests in subsidiaries	–	–	(12,345)	26,506	**–**
Gain on deemed disposal of an associate	28,273	115	–	–	**–**
Gain on distribution of an associate	–	189,210	–	–	**–**
Impairment loss on goodwill of interest in a jointly controlled entity	–	(22,471)	–	–	**–**
Impairment loss on goodwill arising from acquisition of a subsidiary	–	–	(191,457)	–	**–**
Increase in fair value of investment properties	–	–	14,400	8,500	**31,130**
Discount on acquisition of additional interest in a subsidiary	–	–	–	–	**1,342**
Gain on disposal and dilution of interests in subsidiaries	–	–	–	–	**375,680**
Gain on disposal of interest in a jointly controlled entity	–	–	–	–	**61,039**
Changes in fair value of held-for-trading investments	–	–	(2,180)	3,308	**23,713**
Profit (Loss) before tax	29,588	64,397	(318,255)	(15,075)	**447,998**
Income tax expense	(1,107)	3,259	(2,372)	(1,103)	**(6,785)**
Profit (loss) for the year	28,481	67,656	(320,627)	(16,178)	**441,213**
Attributable to:					
Equity holders of the Company	28,481	67,720	(316,796)	(15,204)	**425,661**
Minority interests	–	(64)	(3,831)	(974)	**15,552**
	28,481	67,656	(320,627)	(16,178)	**441,213**

Five Year Financial Summary

	As at 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	754,165	457,516	461,840	457,164	**2,566,391**
Total liabilities	(122,210)	(113,738)	(253,437)	(235,601)	**(1,598,035)**
	631,955	343,778	208,403	221,563	**968,356**
Equity attributable to equity holders of the Company	631,955	342,344	204,395	212,010	**635,814**
Share options reserve of subsidiaries	–	–	–	5,907	**55,249**
Minority interests	–	1,434	4,008	3,646	**277,293**
	631,955	343,778	208,403	221,563	**968,356**